The Accra High-Level Forum on Aid Effectiveness took place on September 2 to 4, providing a forum for extensive discussions on best practices in aid effectiveness. High-level negotiations, in which DFI provided technical support to developing country negotiators, produced an Accra Agenda for Action (AAA) to accelerate progress on making aid effective in achieving development results. For full details of the HLF and to download a copy of the AAA, go to www.accrahlf.net.

CSO Conference
The HLF was preceded by a two-day CSO conference, which concluded that the AAA should:
- broaden the definition of ownership so that citizens, civil society organisations and elected officials are central to the aid process at all levels.
- set targets to, by 2010: commit 80% of aid for 3-5 years in advance; reduce conditionality; make all technical assistance demand-led; and end tied aid, including food aid and technical assistance.
- make aid more accountable by implementing new standards for transparency to ensure that accurate, timely, accessible and comparable information is communicated to the public.
- improve monitoring by reinforcing Paris Declaration indicators, adding new indicators based on new AAA targets, supporting independent citizen-led monitoring and evaluation, and assessing impact on poverty reduction, gender equality, human rights and environmental sustainability.

For a comprehensive picture of CSO views on aid effectiveness, as well as the statement they submitted to the HLF and their reactions to its outcome, see www.betteraid.org.

Paris Declaration Progress Survey Published
Just before the meeting, the OECD published its survey of progress by 2007 towards the Paris targets set for 2010, as shown on the figure below. It found considerable improvement in public financial management in developing countries, and some in coordinating technical assistance and

How far are we from meeting the targets?

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2005 baseline</th>
<th>Distance to target (in 2007)</th>
<th>2010 targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Operational development strategies</td>
<td>17%</td>
<td>24%</td>
<td>75%</td>
</tr>
<tr>
<td>2 Reliable Public Financial Management (PFM) systems</td>
<td>36%</td>
<td>48%</td>
<td>85%</td>
</tr>
<tr>
<td>3 Aid flows are recorded in countries’ budgets</td>
<td>42%</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>4 Technical assistance is aligned and co-ordinated</td>
<td>48%</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>5a Donors use country PFM systems</td>
<td>40%</td>
<td>55%</td>
<td>(80%)</td>
</tr>
<tr>
<td>5b Donors use country procurement systems</td>
<td>39%</td>
<td>54%</td>
<td>(80%)</td>
</tr>
<tr>
<td>6 Donors avoid parallel PIUs</td>
<td>1 817</td>
<td>1 601</td>
<td>611</td>
</tr>
<tr>
<td>7 Aid is more predictable</td>
<td>41%</td>
<td>46%</td>
<td>71%</td>
</tr>
<tr>
<td>8 Aid is untied</td>
<td>75%</td>
<td>46%</td>
<td>88% (Progress over time)</td>
</tr>
<tr>
<td>9 Donors use co-ordinated mechanisms for aid delivery</td>
<td>43%</td>
<td>46%</td>
<td>66%</td>
</tr>
<tr>
<td>10a Donors co-ordinate their missions</td>
<td>18%</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>10b Donors co-ordinate their country studies</td>
<td>42%</td>
<td>42% (no progress)</td>
<td>66%</td>
</tr>
<tr>
<td>11 Sound frameworks to monitor results</td>
<td>7%</td>
<td>9%</td>
<td>38%</td>
</tr>
<tr>
<td>12 Mechanisms for mutual accountability</td>
<td>22%</td>
<td>24%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: OECD’s 2006 Survey on Monitoring the Paris Declaration.
untying aid, but virtually none on other indicators. As a result, it recommended the international community to:

- Systematically step up efforts to use and strengthen country systems
- Strengthen accountability over development resources, both to domestic constituencies of donor institutions and recipient governments, and mutually between donors and recipients
- Reduce the transaction costs of aid, through programme-based approaches, efficient division of labour among donors (led by recipient governments) and coordination of missions and studies. Overall, the report concluded that “the survey results should serve as a wake-up call. They tell us quite clearly that ‘more of the same’ is unlikely to be enough to deliver the transformation envisaged by the Paris Declaration.” The report is available at http://www.oecd.org/document/0/0,3343,3236398_41203264_1_1_1_1,00.html

Content of the AAA
The AAA contains much stronger language than the Paris Declaration, under 3 main headings:

- **Strengthening Ownership:**
  - broadening country dialogue on development plans by working closely with parliaments, local governments and CSOs; and capacity-building for all actors;
  - developing countries identifying their own capacity needs, jointly selecting and managing technical cooperation with donors, and promoting South-South TA;
  - donors using country systems as a first option, regularly reviewing non-use of systems, producing plans for fulfilling Paris commitments, and increasing use of country fiduciary systems; and developing countries leading in assessing their own systems.

- **Building More Effective and Inclusive Partnerships:**
  - Reducing aid fragmentation by enhancing country-led division of labour among donors, and promoting dialogue on aid allocation across countries and how to help underaided countries.
  - Increasing value for money by extending untying to non-LDC HIPCds (Bolivia, Cameroon, Côte d’Ivoire, Ghana, Guyana, Honduras, Nicaragua and Republic of Congo), elaborating plans for further untying, and promoting South-South procurement;
  - Working with all aid providers, by recognising South-South cooperation as complementary, encouraging triangular cooperation, and maximising alignment of global programmes.
  - Deepening engagement with CSOs, to apply aid effectiveness principles through a CSO-led multi-stakeholder process to increase coordination, information and accountability.
  - Adapting aid policies for countries in fragile situations, by applying the Principles for Good International Engagement in Fragile States and Situations.

- **Delivering and Accounting for Development Results:**
  - Improving management for results through better information, evaluation, alignment with country systems and incentives within donor agencies;
  - Being more accountable and transparent to the public for public financial management and aid, accelerating national mutual accountability processes and involving parliaments and citizens, and strengthening international accountability mechanisms.
  - Limiting conditionality to a set of conditions drawn from national development strategies, making conditions public, and disseminating good practices (with input from civil society).
  - Increasing medium-term aid predictability, by strengthening planning processes, and donors providing information on annual commitments/disbursements and 3 to 5 year plans.

Lengthy negotiations also agreed a few concrete monitorable actions, on: channelling aid through country-fiduciary systems, evaluating progress on division of labour in 2009, starting a dialogue on inter-country aid allocation in 2009, donors beginning immediately to supply aid information to recipients, and reviewing by end 2009 proposals to strengthen international mutual accountability.

However, developing countries would have liked to see additional commitments as follows:

- a target for using country monitoring and evaluation systems
- donors elaborating by end-2009 plans to untie aid, including for non-LDCs, food aid and TA.
- international mutual accountability being strengthened (rather than proposals reviewed) in 2009
- explicit encouragement (and where necessary capacity-building assistance) for developing countries to design aid policies, and donor alignment to be judged in relation to these
- a target for developing country management of TA (in terms of its design, financing, procurement and M&E), as well as for increased procurement of Southern TA
- a target for individual donors to elaborate in 2009 plans to reduce conditionality
- a stronger reference to the future role of the UN Development Cooperation Forum, in regularly reviewing scaling up, mutual accountability and aid effectiveness via multi-stakeholder dialogue.

Developing countries’ inability to make more progress on these proposals reflected the fact that the ultimate text was based on all donors reaching a unanimous position. One of the most important AAA commitments may therefore be to “develop institutionalised processes for the joint and equal partnership of developing countries and the engagement of stakeholders” which could change future monitoring and negotiation processes.

Overall, the AAA is an important step forward for aid effectiveness due to its new language and principles. HIPCds should henceforth be able to hold donors accountable for whether they supply information on commitments, disbursements and 3 to 5 year expenditure plans; increase use of fiduciary systems; and divide their labour. They should also be able to play an active part in intended international discussions on inter-country allocation of aid, international mutual accountability, and good practices on conditionality. However, implementation of the other AAA principles will depend on whether they are translated into monitorable actions for which donors and developing countries can be held accountable, at the global level as well as through national action plans. Even if this happens, as the Paris Declaration survey shows, there will need to be a transformation of behaviour by donors and developing countries if the next HLF in 2011 is to see faster progress to effective aid.
UN DEVELOPMENT COOPERATION FORUM AGREES STRONG RECOMMENDATIONS

The new High-Level UN forum on aid, the Development Cooperation Forum (DCF), met in New York on 30 June–1 July, to make strategic recommendations to the Doha Review Conference on Financing for Development and the Accra High-level Forum on Aid Effectiveness, for aid to work better to improve the lives of the poor. Preparatory meetings and discussions among more than 1000 representatives of governments, international organizations, civil society, parliaments, local governments and the private sector demonstrated the DCF’s success as a global venue for representative multi-stakeholder dialogue on aid. Its main recommendations were in six areas:

1) Aid Commitments and Allocation
   • **Meeting aid commitments** is indispensable to the reaching the MDGs. Donors need to set budget targets for annual increases through to 2015, to ensure delivery of their promises;
   • **Aid allocation** needs to be more balanced and predictable across countries and sectors, to maximize progress to the MDGs, and this should be subject to regular independent review;
   • Aid allocation **across countries** should be based on multidimensional poverty indicators, structural vulnerability to exogenous shocks and progress towards the MDGs;
   • In terms of **sectors**, aid increases should particularly support agriculture and food security, economic infrastructure and energy, and trade, all sectors crucial to sustained development and for which many programme countries have designed sector specific strategies; and
   • In terms of **modalities**, budget support should be increasingly used due to its positive effects on national ownership, disbursement speed and use of national systems.

2) Aid Effectiveness
   • The Accra Agenda for Action should take into account the views of stakeholders by **setting measurable time-bound targets** for untying aid, transforming technical assistance into capacity-building, reducing conditionality, maximizing concessionality, increasing multi-year predictability and improving flexibility to combat exogenous shocks;
   • **Conditionalities** remain a key concern because they reduce policy space, country leadership of development, and aid predictability. Targets should be set for sharp reduction in conditionality;
   • **Mutual accountability** processes at the country-level should be strengthened by defining good practice standards and reinforcing national capacity and leadership of the processes;
   • **Greater transparency** on aid must be a key outcome of the Accra discussions, by making all aid agreements, policies and data publicly available to facilitate scrutiny by parliamentarians and other stakeholders.

3) Country-level Capacities for Coordinating and Managing Aid
   • Developing countries should develop effective **aid policies**, with donors supporting them by intensifying capacity-building on aid analysis, policy, negotiation and evaluation of results;
   • Concerns about **absorptive capacities** need to be resolved by joint comprehensive assessments of bottlenecks, including donor and developing country procedures; and
   • **Capacity development** on aid policy and analysis should be further extended to all major national stakeholders, particularly parliamentarians, civil society and local governments.

4) Non-State Development Cooperation Providers
   • The MDGs will not be achieved without strong involvement (including provision of financing) by civil society, businesses, foundations and global funds. The comparative advantage of these actors is clear in terms of reach and efficiency, but their efforts need to be **fully supportive of national priorities**;
   • Aid channeled through civil society organizations, global funds and the private sector needs to be integrated into an **enlarged aid quality framework**, which takes account of the particularities and concerns of these actors, while demonstrating clear effectiveness in achieving results.

5) South-South and Triangular Development Cooperation
   • A process is needed to facilitate the **exchange of enhanced information** and analysis, through which other development actors can learn the positive lessons from South-South and triangular aid, especially in technical assistance/capacity development, infrastructure, regional programmes and rapid delivery of development results;
   • These lessons could be used to arrive at **more widely agreed aid effectiveness practices and objectives**, to help developing countries access and use the best available assistance through a nationally-owned aid policy framework.

6) Future Role of The Development Cooperation Forum
   • **Further strengthen the voice of all stakeholders**, including civil society, parliamentarians, private sector and local governments by supporting inclusive high-level dialogue on aid issues;
   • **Continue to provide independent and high-quality analysis** of aid issues and ensure a comprehensive and inclusive international debate on this agenda;
   • Include the **broad range of issues** which affect aid effectiveness, such as climate change, food security and policy coherence with other development finance, trade and debt;
   • Play a key role as a **global mutual accountability mechanism** by reinforcing national and international mutual accountability structures, based on independent analysis of progress;
   • **Focus its 2010 meeting** on playing an instrumental role in **developing a more inclusive framework for aid quality**, taking into consideration the concerns of multiple stakeholders.

The DCF discussions were supported by a report of the UN Secretary General, which DFI helped to draft, and background studies on South-South aid, aid effectiveness, alignment with the MDGs, and aid allocation. These papers are on the web at [http://www.un.org/ecosoc/newfunct/2008d.cf.shtml](http://www.un.org/ecosoc/newfunct/2008d.cf.shtml).
PARLIAMENTARIANS AGREE STRONGER ROLE IN DEBT MANAGEMENT

During 25-27 June, Pôle-Dette and DRI organised (in Bamako, Mali) a regional seminar to sensitisise parliamentarians from Finance Committees on their future role in maintaining public debt sustainability. It was attended by delegations from all the countries in the CFA Franc Zone, as well as Burundi, Guinea, Mauritania and Rwanda. Each country delegation had three members including the Chair of the Finance Committee and at least one opposition member (for countries with multiparty systems).

For Franc Zone countries, the seminar was designed to follow the adoption, in 2007 by CEMAC and UEMOA Councils of Ministers, and in 2008 by the Union of Comoros, of regulations setting the framework for public debt management policies. To maintain debt sustainability following international debt relief initiatives, these regulations oblige each government to prepare and annex to the budget law a public debt strategy document.

Public debt management is a key element of public financial management. Given the central role of parliaments in debating and adopting the budget law, as well as in assessing budget implementation, this seminar had two aims: 1) to sensitisise members of finance committees on the issues involved maintaining debt sustainability; and 2) to define the role which parliament should play in keeping debt sustainable (including in implementing the new regulations in the Franc Zone).

To fulfil these objectives, the seminar discussed the following themes:

1) Key issues and challenges in public debt management. Parliamentarians reached a consensus that while debt is useful for financing development, it is essential to keep control of debt levels, and build a parliamentary consensus on optimal levels of debt. In particular, debt management must include all the potential financial obligations of the state (especially parastatals borrowings), be fully coordinated with macroeconomic policies, and build on an appropriate legal and institutional framework.

2) The role of the new legal and institutional framework for debt management in the Franc Zone in preventing future debt crises. Parliamentarians agreed that their role in debt management needs to be reinforced, so that this reform can achieve its objectives. They expressed concern that proposed National Public Debt Committees might conflict with the functions of existing national debt management structures, but were reassured by explanations that the NPDCs will not duplicate existing structures, and will even have technical secretariats provided by the main debt management unit to achieve 3 objectives:

- Ensuring that the functions of debt policy formulation and analysis, and mobilisation of financing for government are fully coordinated;
- Coordinate the roles of all structures involved in debt management functions and their coordination with macroeconomic policies; and
- Establish a consensus within government on the national debt policy.

3) The phenomenon of vulture funds, private sector actors with strong legal knowledge which buy a debt at a minimal price, and demand in courts its full value plus interest and legal costs. This demonstrated the need for profound reforms in debt management, to increase transparency. Parliamentarians insisted on the need to adopt laws which could avoid the unfortunate experiences of such lawsuits, in order that debt management should be the concern not only of technical officials or the executive, but also of parliaments and national audit institutions.

4) Management of budget surpluses for countries exporting unrenewable natural resources. Parliamentarians expressed the need to manage public finances very actively and conserve budget revenues from petroleum for use beyond the period of oil production.

At the end of the seminar, the parliamentarians declared that they had been fully briefed on their need to play a much greater role in public debt management, and in the case of the Franc Zone, on the content and implications of the new debt regulations. They undertook to insist with their Governments on the need for them to undertake a comprehensive examination of debt policy during the next budget debate. The Chairpersons of the Finance Committees also decided to create a network of Francophone finance committee parliamentarians in order to assess and reinforce their capacities in management of public finances and debt. They urged Pôle-Dette to reinforce its assistance in this area at national level, to both parliamentarians and policymakers so that they could in turn sensitisise the general public to the importance of sound debt management.
C EMLA and DRI’s second Regional Workshop on Training Trainers for Debt and New Financing Strategy and Analysis took place in Mexico City during 2 to 12 June, with the participation of teams from Bolivia, Honduras and Nicaragua and an observer from Haiti (mainly from Finance Ministries and Central Banks). Its aim was to consolidate the capacity of regional experts from HIPCs, to be trainers at the national and regional level, allowing them to play a full role in future events under the HIPC CBP.

Workshop Methodology
The main methodological tool was the CBP Training for Trainers Guide, which includes not only instructions on how to complete technical tasks, but more importantly guidelines for how to train participants in regional or national workshops. The trainers also used a generic national workshop manual as a reference guide (Honduras was the case study).

This practical training was accompanied by presentations from the CEMLA and DRI facilitators on the role trainers are expected to play in preparing and organizing workshops, opening sessions, examples of good and bad presentations, how to prepare and run plenary sessions and sessions for countries to assess their debt management capacity, how to combine debt, new financing, macroeconomic and poverty reduction spending scenarios, how to organize teams to write and edit the final report, and how to convince policymakers in presentations to sensitisation seminars. There were also practical sessions on how to use the Debt Pro© analysis tool, with participants playing the lead role in training to demonstrate that they could lead in future workshops.

Finally, as happens in regional and national workshops, each day ended with debriefing meetings among trainers, in which participants rotated daily to represent their groups.

Workshop Results
The workshop fully met its objectives, and also allowed the participating countries to exchange experiences on best training practices. This was reflected in the evaluations of the event, in which 100% of participants assessed it as highly useful.

Each technical group also provided suggestions for improving CBP methodology:
- **Portfolio review:** include analysis of currency composition, average maturity and implicit costs of debt (including interest rates).
- **Domestic debt strategy:** prepare a more comprehensive guide to using the CBP templates and to how to link their outputs to Debt Pro© and the LIC-DSF.
- **External financing strategy:** simplify some criteria in the methodology, and make them all if possible quantifiable to show policymakers the impact of improvements.
- **Macroeconomic forecasts:** the group suggested that they make the calculations of demand for domestic debt to ensure consistency with fiscal and monetary data.
- **Macroeconomic and poverty reduction forecasts:** either joint work between the two groups, to improve comprehension of their links, or (given the large size of the poverty reduction group) nomination of a representative who can liaise between them.

The workshop also came up with overall suggestions for improving methodology:

- Consider organising a daily meeting between the trainer and group members to explain more clearly how to judge the relationship between progress in different groups, evaluate progress on tasks and plan future tasks more participatively.
- Reinforce efforts to organise sensitization seminars for policymakers and the media in order to underline the importance of building capacity and avoid the risk of capacity being gradually undermined in future years.
- Improve the quality of national reports (building on the improvements produced by CEMLA’s new guidelines) by linking the historical analysis conducted before the workshops with a first-day discussion of possible scenarios and their results.

Each national delegation met to assess its debt management capacity, from which emerged major advances by Honduras and Nicaragua in designing and approving formal debt strategies as part of budget processes, fulfilling laws passed by their Governments. The observer from Haiti expressed his satisfaction with the workshop, and his wish for rapid implementation of the intensive assistance programme agreed between the Haiti government and CEMLA for 2008-10. Most important, the workshop created a second generation of regional trainers who – added to the first –, will be sufficient to conduct all the forthcoming regional and national activities with minimal external assistance.
UGANDA UPDATES STRATEGY TO MAINTAIN LONG-TERM DEBT SUSTAINABILITY

As part of the HIPC-CBP, MEFMI continues to work with countries to develop policies and strategies for managing their borrowing responsibly to avoid accumulation of debt to unsustainable levels. Uganda, a beneficiary of the HIPC initiative and later the Multilateral Debt Relief Initiative (MDRI), is one of the countries that has taken a lead and made a major investment in developing national capacity to design and implement a comprehensive debt strategy, so as to achieve the Government’s aim of ensuring the country mobilizes the most appropriate external and domestic resources to finance its development.

Nevertheless, Government of Uganda requested a Debt Strategy Update workshop to provide comprehensive training to government officials in the analysis of debt strategy issues, and maintain a sustainable team capable of updating debt strategy analysis regularly, for the foreseeable future, and with minimal external assistance. As Uganda is a post-MDRI country, the focus of the workshop was on helping Government to design an aid and debt strategy which would maximise the effectiveness of external development financing, ensure high quality domestic debt management, and maintain long-term debt sustainability as assessed by the LIC-DSF of the BWIs. On this basis a national team updated the national public debt strategy document.

The workshop was held in Entebbe from 21st July to 1st August 2008. It was facilitated by MEFMI staff, Debt Relief International, MEFMI fellows and 11 Ugandan experts and was attended by 25 technical officials working on debt and aid issues from the Ministry of Finance, Economic Planning & Development and Bank of Uganda. Government of Uganda contributed over 80 percent of the total workshop cost.

The debt strategy analysis covered all debt contracted from external and domestic sources and focused on a number of simulations intended to address some of the challenges to maintaining long-term debt sustainability, within the context of:

- Increasing expenditures to meet the Millennium Development Goals as early as possible;
- Less access to highly concessional sources of external funding, which might provoke a need for increased less-concessional borrowings;
- Borrowing from the domestic market to finance the budget (whereas currently the Government uses domestic debt for monetary purposes only).

The baseline results suggested that Government’s external debt is currently sustainable and sustainability can be maintained over 20 years. Implicit in this result are assumptions that the Government can mobilize even higher levels of grants and concessional loans, in order to finance the increased infrastructure investments needed to reach the MDGs, and that macroeconomic management remains sound. In addition, the results indicate that Uganda has a low risk of debt distress, as the LIC-DSF basecase and stress test results are all well below the sustainability thresholds for an IRAI ‘strong’ performer.

However, if Government cannot mobilize increased concessional flows, and has to borrow non-concessionally, to fund the energy sector or other infrastructure, this could make debt service unsustainable. Similarly, if current strong macroeconomic performance is not maintained, and some of the key macro aggregates revert to historical levels, then Uganda could be facing an unsustainably high external debt burden in about ten years time.

Uganda currently has a domestic debt to GDP ratio of 10%, and a ratio of domestic debt interest costs to domestic budget revenue of 7.5%, both of which are below Government benchmarks which have been set at 15%. Should the Government continue with its current strategy of accessing the domestic markets only for monetary policy purposes, and restructuring the portfolio to achieve a 60:40 ratio of medium-to-long term bonds compared to Treasury Bills, then domestic debt indicators will remain below the Government benchmarks. However, if Government borrows for fiscal purposes, particularly to offset shortfalls in external aid flows, domestic debt could rise above the benchmarks.

The 2007 Debt Strategy advocates an increase in the supply of credit to the private sector and the deepening of the financial sector. However, the DSA results show that the domestic debt-to-private sector credit ratio is 130 percent (as compared with the Government benchmark of 100 percent), and it remains above the benchmark over the medium term. Thus, additional policy measures are needed to provide other financial investment opportunities and attract more non-bank financial institutions.

The main recommendations from the analysis for Government include:

- The policy of borrowing only on concessional terms should be maintained, and borrowing should be restricted to priority sectors/productive sectors.
- Loans should be focused on sectors such as roads, energy, water, agriculture, education and health which, if efficiently used, will maintain macroeconomic performance and increase revenue needed to service the debt.
- Government should enhance and diversify financial sector development to stimulate private sector-led growth.
- Government should establish an aid database to monitor and analyse aid inflows.
- Government should assess the quality of external resource inflows, taking into account the alignment of the policies and procedures of donors/creditors with Government priorities, and not just focusing on the concessionality of the flows, to make sure every dollar of financing makes the maximum contribution to Uganda’s development.

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Uganda Debt as % GDP – 2008

- 10% Domestic
- 14% External
The workshop began with a set of introductory presentations on best practices in mobilizing external financing. These discussed recent trends in flows of external financing to developing countries (especially PALOPs), non-concessional financing options and their advantages and disadvantages, aid effectiveness and the Paris Declaration, multi-donor budget support arrangements, and donor and recipient government procedures and policies.

Thereafter, the national teams were each organized into three technical sub-groups. The first group looked into recent aid trends in flows of external financing to developing countries (especially PALOPs), non-concessional financing options and their advantages and disadvantages, aid effectiveness and the Paris Declaration, multi-donor budget support arrangements, and donor and recipient government procedures and policies.

The second group analysed their own national government’s policies and procedures, and the constraints these can impose on disbursement and effective spending of resource inflows. The third group reviewed the policies and procedures of the different providers of external financing, and in particular how aligned they are with national policies and procedures.

Each draft policy prepared by the national teams included:
- Principles and objectives for mobilizing external resources, to which providers could align;
- Steps Governments should take to improve and reinforce their own policies and procedures;
- Recommendations for reinforcing each of the institutions which mobilise external resources.

However, the reports also reflected different national experiences. Angola focused on its lessons from mobilizing commercial credits and oil guaranteed resources, and the need to improve the legal and regulatory framework for external financing, Guinea Bissau and São Tomé and Príncipe defined how to diversify their donor bases, improve the quality of aid, and increase their aid absorption capacity (including comprehensive evaluation of their disbursement procedures to overcome bottlenecks). Mozambique focused on how to widen and deepen its current aid quality frameworks, reduce donor conditionality and counterpart funds demands, and improve coordination among the institutions dealing with aid.

The meeting also provided an opportunity for an update on progress of the PALOP Institute (see below).

**PALOP INSTITUTE (IGEF) CONTINUES TO MOVE FORWARD**

In February 2008 in Luanda (Angola), representatives of the 5 PALOPs signed an agreement to establish the Institute for Economic and Financial Management (IGEF). This ceremony was the culmination of several years of work to establish a capacity-building institute for their Government officials so that they could benefit from training in Portuguese (as well as continuing to benefit as appropriate from training in English and French through membership of other CBP regional partner organizations – MEFMI and Pôle-Dette). The new institute will have a major Debt Management training programme, modelled on that constructed by the other CBP regional partners, as well as macroeconomic and financial management programmes.

At the signing ceremony, the Angolan Minister of Finance was chosen as interim Director General of IGEF, pending recruitment of a Director General through a competitive selection process. The PALOP Institute has already signed financing agreements with the African Capacity Building Foundation and the European Union, as well as undertakings of technical cooperation from the IMF and World Bank Institutes, the UN system, Brazil and Portugal. The CBP is also planning to support IGEF by conducting joint regional and national training activities during 2009 and assisting IGEF to plan for sustainability of its debt strategy activities beyond 2009.

It is expected that the PALOP Institute will start operation early in 2009, with a representative office in Luanda, and a new state-of-the-art training complex in Lubango.

At the PALOP regional workshop, the Government of Angola made a presentation on the latest progress in establishing the IGEF. Workshop participants decided to sign a joint statement urging their political leaders to move ahead in making budgetary commitments for 2009, and recruiting the Director-General rapidly, so that the IGEF can start work early in 2009.
During 1-12 September, the HIPC CBP held its first National Debt Strategy workshop in Liberia. This article presents some of the key conclusions of the workshop.

Background
Thirty years ago, Liberia’s per capita GDP was on par with that of Egypt, Indonesia, and the Philippines. After 1980, Liberia entered a protracted period of instability that included 15 years of civil war, with a devastating impact on the country’s economy. Now, 64% of the population lives below the national poverty line. The long civil conflict also left the country with a very large and complex debt situation. Liberia defaulted on its external debt in the mid-1980s, and thereafter non-payment of debt, interest and penalties more than tripled the debt. By June 2007, Liberia’s total external debt was a staggering US$4.7 billion dollars, 96% of which was in arrears, and domestic debt added another US$300 million dollars.

Over the same period, Liberia’s capacity to service debt completely collapsed. GDP fell by 90% between 1987 and 1995, one of the largest economic collapses ever recorded, and exports of many products disappeared. By mid-2007, the ratio of the present value of Liberia’s external debt to its exports was 1,576 %, the highest in the world, or more than fifteen times higher than the HIP&C threshold. As a result, reducing the debt burden is at the moment one of the Government’s highest priorities.

With the cessation of hostilities, and the reforms put in place in January 2006 by President Ellen Johnson-Sirleaf’s administration, the country re-established security and began the process of restoring public services across the land. Economic activity continued to recover to a growth of 9.5% in real GDP in 2007, accompanied by relatively stable inflation rates. Significant progress has been made in improving revenue collection, public financial management (PFM) and procurement. Fiscal policy has been anchored on a balanced cash-based budget, because the unsustainable level of public debt makes it imprudent to pursue an active fiscal policy stance.

Steps To Address Debt Overhang
Liberia adopted a domestic debt resolution strategy in January 2007. It conducted an extensive review of US$914 million in claims with the assistance of an external auditor, and found about US$314 million of those claims were valid. It then decided to settle all valid claims through a discounted payout, where the discount rate depends on the size of the claim. The Central Bank is treated as a preferred creditor, so will be paid in full. The budget included US$5.6 million in 2006/07 and US$5.9 million in 2007/08 to cover the initial cost of some claims.

With respect to external debt, Liberia’s government has already taken six key steps: 1. In December 2007, it cleared its World Bank arrears using grants, reducing debt by US$400 million. 2. It also cleared its African Development Bank arrears with grants, reducing debt by US$225 million. 3. In March 2008, it cleared IMF arrears through a bridge loan followed by new PRGF financing. This did not reduce IMF debt (over US$900 million) but allowed us to resume normal relations with the IMF. 4. It also reached HIP&C Decision Point, is receiving interim relief on debt service payment falling due, and is targeting to reach HIP&C Completion Point in the second half of 2009. 5. In April 2008, it met its Paris Club creditors, and received very generous treatment, with immediate cancellation of US$250 million (including immediate 100% forgiveness by several governments), and rescheduling of the remainder so that no payments will fall due for at least three years. 6. It is pursuing meetings with its commercial creditors, and is on-track to reach an agreement with them on a debt buyback on terms consistent with HIP&C, with support of the IDA Debt Reduction Facility. Overall Liberia has reduced its debt by US$1 billion in the last year, and is eager to conclude negotiations with several smaller multilateral institutions and non Paris Club creditors.

Remaining Challenges
The national workshop identified the following key challenges: 1. To continue to implement the key policies and programs of reconstruction and development outlined in its Poverty Reduction Strategy, especially the HIP&C Completion Point triggers, which include implementing new public financial management legislation, completing a number of audits of key ministries, expanding national coverage of a basic package of health services, harmonizing the Ministry of Education’s payroll, and strengthening debt reporting and debt management systems. 2. To complete the process of gathering accurate data on external debt and reconciling the current amounts outstanding, and regularly publish on its website accurate data on external and domestic debt. To achieve this, Liberia needs to acquire appropriate internationally-recognised debt recording software (such as the Commonwealth or UNCTAD systems) rather than using an Excel database. 3. To increase its capacity for debt strategy and sustainability analysis, using both HIP&C and LIC-DSF methodologies, in order to ensure that it benefits from maximum HIP&C debt relief and thereafter is able to maintain its debt sustainability. 4. To increase its capacity to negotiate external debt relief without assistance from external advisors. 5. To increase its capacity to make forecasts of macroeconomic prospects and of the impact of anti-poverty spending. 6. To design a policy for sustainable new borrowing and effective aid mobilization, especially ensuring that donors align more closely to its national policies and procedures.

It is only by rebuilding the institutional and professional capacity needed to monitor, analyse, service and renegotiate debts, that Liberia can ensure it never again faces debt servicing difficulties.
Regional Workshops

CEMLA Regional Training for Trainers Workshop
Mexico City, 2-12 June
See article on page 6

PALOP Regional Workshop
Maputo, 7-12 July
See article on page 8

Pôle-Dette Parliamentarians Workshop
Bamako, 24-27 June
See article on page 5

Pôle Dette Regional Workshop on Long Term Public Debt Sustainability for Low-Income Countries
Douala, 28 July-1 August

This was organised in cooperation with the World Bank, IMF, AfDB and DRI, and trained 30 officials from 9 countries (Burundi, CAR, Chad, Congo Republic, DR Congo, Côte d’Ivoire, Guinea, Guinea-Bissau and Togo). Each country team included 1 budget specialist, 1 balance of payments expert and 1 debt manager.

The World Bank, IMF and Pôle-Dette led the training sessions, which were built around four modules: 1) the theoretical framework for external and public debt sustainability (see newsletter 31, page 5); 2) presentation of the LIC-DSF templates and of how to use them to design borrowing strategies taking into account macroeconomic and debt prospects; 3) the use of sensitivity tests assessing country vulnerability to shocks; and 4) practical work in national teams to prepare a LIC-DSF analysis for each country. The seminar benefited from the development by the BWIs of a joint template in Excel which analyses external and fiscal debt sustainability and considerably simplifies the training and practical work.

The overall conclusions of the seminar were that:

- Virtually all the participating countries are in debt crisis as assessed using the LIC-DSF.
- The new template is extremely useful for judging the effects of macroeconomic and borrowing policies on risks to debt sustainability.
- The seminar was too short for both finalising all the necessary (macroeconomic and debt) inputs and conducting the analysis – two weeks would be a better duration.

National Workshops

Bolivia Subnational Debt Sustainability and Strategy Workshop
El Alto, 17-24 July

This took place in La Paz, and was preceded by two preparatory missions, in November 2007 and July 2008. It attracted 17 officials from the units of public debt, accounts, budget, treasury, planning and audit, aiming to build their capacity for public financing analysis with particular emphasis on debt sustainability. Participants compiled and organised fiscal and debt data, and then designed scenarios and forecasts and produced and analysed results. They finalized an analytical report, comprehensive databases for debt and flows of funds, micro- and macro-economic analysis of debt sustainability, and recommendations for improving institutional coordination, as well as evaluating their capacity for fiscal and debt management. Based on the participants’ evaluation of the workshop, 28% thought it could have been longer, but all thought that its technical and administrative organisation was excellent, and 94% felt the knowledge acquired during the workshop would be highly useful for their work.

Côte d’Ivoire Institutional Mission
Abidjan, 28 July-1 August

Pôle-Dette and DRI jointly organised a national workshop on sustainable debt reduction, to help the authorities to design a debt strategy which:

- Reinforces the links between external and domestic public debt management, macroeconomic policy and national anti-poverty spending goals to reach the MDGs;
- Places the sustainability of public finances and debt at the centre of national financial and economic policies, by analysing the sustainability of external and domestic debt;
- Puts in place coordination structures to implement the debt reduction strategy.

The workshop benefited from the participation of 33 officials from the Ministries of Economy, Finance and Planning, the National Directorate of the BCEAO, and several line Ministries (Education, Health, Infrastructure etc.).
for adopting and publishing these texts; and sensitize the Ivorian authorities to the risks related to attacks by vulture funds and to the measures to be taken to guard against them.

The mission formulated the following recommendations:

- Finalising the draft decrees creating the NPDC, and transmitting them to the authorities for early adoption and promulgation;
- Stressing to the authorities that the deadline for adopting these texts expired on 3 July;
- Widening coordination structures to include those beyond debt managers and the Ministry of Finance, to ensure a wide national consensus on debt management;
- Ensuring that lawyers are included in all stages of debt management, notably the NPDC;
- Distinguishing between the functions of the NPDC and those of its secretariat;
- Organising specific training events to support the members of the NDPC and its secretariat;
- Launching a sensitisation/information campaign for all Ministries and development partners to inform them about the new legal and institutional framework;
- Further sensitizing debt managers as to the risks of vulture fund actions.

Mali – Follow-Up Mission to Train National Debt Committee
Bamako, 4-9 August

Pôle-Dette and DRI organised this mission, to boost the capacities of the National Committee for Public Debt Sustainability. Its main aim was to train the Committee to allow it to conduct debt sustainability analysis without input from donors or international organisations. To this end, 17 officials participated, from the National Directorate of BCEAO, and the Directorate-Generals of Debt, Economy, Budget, Treasury and Planning.

The main result of the mission was a Mali debt strategy document for 2009, containing ceilings for borrowing, indicative thresholds for borrowing terms, and analysis of debt sustainability for 15 years, which the trained officials will finalise during the course of finishing the budget. This document will then be sent to Parliament, as an annex to the budget document.

Mozambique National Debt Strategy Update Mission
Maputo, 11-22 August

This mission took place under the intensive assistance programme for Mozambique which is funded by Sida. It was conducted by DRI and MEFMI, who focussed on overall debt strategy issues, and a World Bank funded consultant from the Brazilian government, who covered risk management issues. The mission worked closely with all relevant Mozambican institutions to prepare a short national debt policy document which will be approved by the Government in Q4 2008.

Future Activities

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

- Inter-Regional Meetings: Participation at the Commonwealth Finance Ministers’ Meeting in St Lucia, and organisation (with the Commonwealth Secretariat and OIF) of the 15th HIPC Finance Ministers’ Network Meeting and Press Conference in Washington;
- Regional Workshops: MEFMI and WAIFEM Regional DeMPA Training for Trainers Workshops; CEMLA New Financing Regional Workshop; Pôle-Dette 2nd Regional Workshop Training National Debt Committees, and 2nd Regional Seminar on Public Treasury Forecasting and Management;
- National Workshops: Bolivia (Subnational), Guinea, Honduras, Mozambique Sensitisation Seminar, Tanzania, São Tomé and Principe;
- Institutional/Follow-up Missions: Cameroon, Comoros: Congo; Haiti; Niger; São Tomé and Principe; Togo;
- Governance: 20th Steering Committee Meeting in October in Tanzania;
- Attachments: Two Pôle Dette staff on debt strategy issues with a DRI consultant in Washington;
- Distance Learning Programme: Francophone and Lusophone Residential Schools
- Information products: Newsletters 37 and 38, 3 listserves on latest debt management developments, and a publication on best Practices in Debt Management Institutions.
The third quarter saw the FPC CBP launch in Benin and Niger with Demand Assessment Missions, hold sensitisation and training events in Burkina Faso, Senegal and Mali, further develop information products and begin work on an updated NTF Manual.

Country progress
Countries have progressed as follows:

- Benin, Congo, Gabon and Niger are preparing their first Opening Awareness and Training Workshops (OATs) for Q4
- Bolivia (Cycle 3) is planning a Follow-up Mission (FUM) in Q4
- Botswana (Cycle 1) will hold an OAT in Q1 2009
- Burkina Faso, Cameroon, Mali and Senegal launched their second cycle surveys in Q3 and are preparing for FUMs in Q4
- CAR, Chad, Cote d’Ivoire, Equatorial Guinea, Guinea-Bissau and Togo are preparing their first Demand Assessment Missions
- The Gambia is scheduling a combined Closing Dissemination Workshop (CDW) for Cycle 2 and OAT for Cycle 3 in Q4
- Ghana (Cycle 2) is launching a pilot survey in Q3
- Malawi is preparing a CDW for Cycle 3, and OAT for Cycle 4, to be held in Q4
- Nicaragua is preparing for a FUM in Q4 after finalizing data for Cycles 1&2 and proposal to donors for funding a third cycle
- Tanzania (Cycle 4) is preparing for a FUM in Q4
- Uganda (Cycle 7) is collecting data for 2007
- Zambia (Cycle 2) is collecting data for 2006 and 2007

Methodology
- The CBP prepared an awareness and training document on the implications of BPM6 for monitoring and analysis. A summary version appears in this newsletter.
- The CBP commenced a comprehensive review of the NTF Manual, to ensure that all of the latest methodology developments are incorporated by the end of phase 3 of the CBP. New and revised documents will be uploaded on the website when ready.

Software
- The FPC CBP Generic Software Technical Manual for Designers has been finalized for dissemination in Q3. Software version 2.0 and the updated User Manual are now ready for registered users to download at http://www.evinsol.co.uk/software/dfi
- MEFMI held a seminar in August for users to test its Private Capital Information System. It plans a smaller event in Q1 2009 for experts to do a final review, prior to release of the system.

Information products
- Newsletter 35 is now available for download on the public pages of our website (visit www.fpc-cbp.org and link to “Newsletter”). In this issue, the FPC reports on the progress of participating countries, advises on ways of designing an FPC Policy Action Plan, reports on the FDI boom in real estate in The Gambia and on the Nicaraguan Investment concentrated in the Free Zone. For subscription enquiries, contact dfi@dri.org.uk
- Briefing #19 and 20 were disseminated in July and August respectively, and are available online (visit www.fpc-cbp.org and link to “FPC CBP Briefing”). In addition to updating on CBP progress, these inform recipients about wider regional and international initiatives and developments on corporate financial behaviour, investment climate, corporate social responsibility, remittances, developments in codes and standards, and methodology for monitoring and analysing FPC. Contact dfi@dri.org.uk if you wish to subscribe.
- Members’ Website: organisation has been enhanced, with individual pages for the NTF Manual, Training for Trainers Manual, FPC CBP Software, Capacity Evaluation, Steering Committee, and Country Contacts (see picture).
- Open Website: the Newsletter page has been redesigned, to indicate the FPC-related contents of each back issue

Governance
- Preparations are underway for the 9th Steering Committee in November, and for a final review of the programme.
Earlier this year, the IMF launched the second publicly available draft of its Balance of Payments and International Investment Position Manual (BPM6). It is motivated by the need to keep pace with globalisation and financial innovation, to expand or clarify various points in BPM5, and to enhance comparability with other international standards including the System of National Accounts (SNA), which is itself presently under review. While it is a draft (the final version is expected later in 2008), further changes will relate only to clarity and detail, so it is virtually final.

Summary Assessment
BPM6 includes some changes that countries participating in the FPC CBP are already implementing, several they would need to consider to comply with international standards, and some that may or may not be desirable or appropriate on a country-by-country basis, taking into account capacity levels and other priorities.

The rest of this article presents the applicable changes classified by chapter of BPM6, drawing out implications for data collection, compilation and office estimation, and analysis. Any changes would imply changing survey questionnaires and software, and would need to be flagged to those in the business sector targeted by surveys.

Assessment by Chapter
2 Overview
Countries are encouraged to present aggregate data series, in line with CBP practice.

3 Accounting Principles
Changes or clarifications for residence, dividends, debt repayments, and income on reverse investment need to be reflected in questionnaires, and editing procedures.

4 Economic Territory etc
Countries are encouraged to collect data by country and sector, in line with CBP practice.

Changes with implications for compilation include: distinguishing enterprises on global, territory and local levels; categorising international organisations (e.g. financial from other; global from regional); and presenting data for special zones (e.g. free zones, offshore financial centres) and special purpose entities (SPE) separately for analysis.

Recommended greater detail on composition of “other sectors” has implications for compilation.

Collective investment institutions (funds) and non-profit institutions serving households should be included, which requires reviewing registers and sampling frames.

Changes with additional implications for questionnaires include identifying SPEs, branches and quasi-corporations (recognised as separate units), and determining the residence of enterprises with no physical presence.

5 Classifications
Several changes have implications for compilation. Categorisation is harmonised in line with SNA into equity and investment fund shares, debt instruments, and other. Equity may be split into listed shares, unlisted shares (or “private equity” including venture capital), and other (not in the form of securities). Stock exchange data should enable distinction of listed and unlisted shares, and the IMF indicates “other equity” is for completeness and expected to arise only rarely.

Other changes would require amending the aggregate BOP/IIP questionnaire (only for countries not collecting loan-by-loan detail) to classify interest rates as fixed or variable, and including breakdowns of derivatives (where relevant).

6 Categories
Changes requiring enhanced office estimation and data checking include incorporation of the OECD Framework for Direct Investment Relationships (covering horizontal as well as vertical links); and recognition of fellow enterprises and indirect voting power.

Changes with additional implications for questionnaires include a revised definition of FDI (without reference to ownership of ordinary shares); FDI split (into investment by a direct investor in a direct investment enterprise, reverse investment, and investment between fellow enterprises); excluding from FDI debt between affiliated financial corporations/permanent debt for certain types of corporation; and identification of pass-through funds including SPEs, holding companies, and other (though there are no standard methods to distinguish these, so countries are urged to use existing practices).

7 IIP
Changes with implications for the aggregate BOP/IIP questionnaire include enhanced methodology on proxies for market value estimation, and nominal value for traded loans.

8 Financial Account
Changes with implications for compilation, editing and checking include adoption of OECD methodology on mergers and acquisitions; treatment of corporate inversion for multinationals and other types of restructuring; superdividends (exceptional payments greatly exceeding previous dividends and earnings); reinvested earnings for portfolio investment funds; and arrears in exceptional financing.

Changes with additional implications for the aggregate BOP/IIP questionnaire include treatment of share buybacks (when a corporation buys its own shares).

9 Other Changes
Changes in volume, exchange rates, and other prices have implications for editing and compilation.

11 Primary Income Account
Changes correspond with chapter 8 for treating superdividends, and recording dividends.

Changes with implications for editing and compilation include standard presentation of primary and secondary income accounts; reinvested earnings (now defined to include undistributed branch profits, which are assumed to be fully reinvested) and their treatment in “FDI chains”; investment funds (whose investment income also includes reinvested earnings); and treatment of transfer pricing.

Changes with possible additional implications for loan-by-loan questionnaires include treatment of debt instruments indexed to a foreign currency. Changes with implications for aggregate questionnaires include treatment of income on reverse investment, investment between fellow enterprises, and more detailed investment income.

14 Analysis
The “balance sheet approach” (which explores how balance sheet weaknesses related to maturity, currency, financial structure, solvency and dependency contribute to macro-financial vulnerabilities) would need to be incorporated into vulnerability analysis.

Finally, compilers need to adopt some terminology changes, which will be listed in a more detailed technical version of this article for the NTF Manual.

Further Reading
BPM6 and supporting technical documentation may be downloaded at www.imf.org/external/pubs/ft/bop/2007/bop man6.htm. BPM6 Appendix 8 lists changes from BPM5 and cross-refers to sections in the main documents for detailed explanations.
MALAWI: OPTIMISTIC INVESTORS FOCUS FDI ON MANUFACTURING

This article summarises findings from Malawi’s last survey, which ended in 2006, and covered the period 2001-4 – another survey is about to start, covering 2005-07. While response was low compared to previous surveys (at only 64%), results were deemed representative, as the team successfully obtained response from most large enterprises, allowing coverage of investment to exceed 80%, and used sophisticated estimation techniques to fill any remaining gaps. The survey improved existing data, and yielded new data for previously uncovered lines of the balance of payments. However, resource constraints have delayed dissemination until now, and the main priority is to launch the next survey rapidly, in order to boost data timeliness.

Foreign liabilities
The table shows that total stock increased by 2004, although it dipped in 2002, due to exchange rate and other price changes, as transactions were either zero or positive. FDI and debt from unrelated sources caused this pattern, as portfolio equity stock remained more or less constant, and relatively insignificant.

Foreign Liabilities: Stocks and Net Transactions 2001-4, US$ millions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>480</td>
<td>0</td>
<td>427</td>
<td>67</td>
<td>441</td>
</tr>
<tr>
<td>FDI</td>
<td>419</td>
<td>17</td>
<td>390</td>
<td>66</td>
<td>410</td>
</tr>
<tr>
<td>Shares + RE + Reserves</td>
<td>322</td>
<td>29</td>
<td>308</td>
<td>35</td>
<td>299</td>
</tr>
<tr>
<td>Intra-company loans long-term</td>
<td>48</td>
<td>-5</td>
<td>37</td>
<td>13</td>
<td>49</td>
</tr>
<tr>
<td>Intra-company loans short-term</td>
<td>48</td>
<td>-7</td>
<td>46</td>
<td>17</td>
<td>62</td>
</tr>
<tr>
<td>Portfolio equity</td>
<td>14</td>
<td>..</td>
<td>12</td>
<td>..</td>
<td>12</td>
</tr>
<tr>
<td>Debt from unrelated sources</td>
<td>47</td>
<td>-17</td>
<td>25</td>
<td>-2</td>
<td>19</td>
</tr>
<tr>
<td>Loans long-term</td>
<td>8</td>
<td>-3</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Loans short-term</td>
<td>3</td>
<td>-2</td>
<td>..</td>
<td>0</td>
<td>..</td>
</tr>
<tr>
<td>Trade credit</td>
<td>36</td>
<td>-9</td>
<td>21</td>
<td>-3</td>
<td>16</td>
</tr>
<tr>
<td>Memo: Arrears</td>
<td>6</td>
<td>-1</td>
<td>4</td>
<td>4</td>
<td>7</td>
</tr>
</tbody>
</table>

The private sector relied predominantly on FDI, to an increasing degree by 2004. FDI mostly comprised share capital, reinvested earnings and capital reserves. And as in the South, most of the rest in Central region, and only a tiny amount in the North. The South received most transactions during 2002-3, implying a widening regional gap, although in 2004, this reversed slightly when transactions to Central region were greatest. The North received very small amounts, implying that regional policy needs to be directed at promoting the Northern region to attain a more balanced national development strategy.

By source country, the USA, UK and South Africa accounted for over two thirds of all stock, followed distantly by Ireland, Denmark, Mauritius and Malaysia. US, UK and South African investors were among the largest transactors, implying increasing reliance on these sources. However, relatively high flows were also recorded from Denmark, Germany, the Netherlands, and Zimbabwe. Overall, investment is largely coming from OECD countries, implying scope for diversification of the investment promotion effort.

Income
Non-resident investors saw on average a reasonable return on their equity: 15% in 2002, rising to 21% in 2003, and 18% in 2004. Manufacturing, wholesale and retail, and transport consistently generated highest net operating profits, and with financial services and agriculture each paid out at least half its profit as dividends to FDI. Transport saw a dramatic rise in profits in 2004, all of which were reinvested.

Foreign assets
The survey captured some foreign assets, although data were limited mainly to trade credits extended to unrelated recipients (US$31m in stock and US$14m of transactions in 2004), followed by FDI (US$52m and US$2m).

Perceptions
Investors were generally very optimistic about their medium term prospects. Most expected to their investments, as well as their profits, turnover, investment in staff training and technology, as well as to maintain trade, R&D, and diversity of products and regions at current levels.

Factors rated very positively in promoting investment included the labour force, internet and mobile phone services, banking and insurance. However, major challenges undermining investment related to macro-economy and policy, electricity, water and physical infrastructure. The top three concerns preventing FDI expansion remained electricity, the domestic political scenario, and telecommunications.
TANZANIA: MINING SECTOR LEADS FDI STOCK

This article presents key findings from Tanzania’s recently completed census for 2002-2005. A total 234 enterprises were surveyed in Tanzania Mainland and 80 in Zanzibar.

Foreign Private Capital
The table shows that FDI was the leading type of FPC, with insignificant stocks and transactions of portfolio equity, and debt from unrelated sources.

Tanzania – Foreign Private Capital (US$ million)

<table>
<thead>
<tr>
<th>INSTRUMENT</th>
<th>Stock End 2004</th>
<th>Net Transactions 2005</th>
<th>Stock End 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>%</td>
<td>Value</td>
</tr>
<tr>
<td>Direct Investment</td>
<td>4,758.50</td>
<td>86.53</td>
<td>4,477.60</td>
</tr>
<tr>
<td>Equity + Reinvested Earnings</td>
<td>3,475.60</td>
<td>63.20</td>
<td>188.40</td>
</tr>
<tr>
<td>Loans Long-term</td>
<td>796.10</td>
<td>14.48</td>
<td>150.20</td>
</tr>
<tr>
<td>Loans Short-term</td>
<td>463.20</td>
<td>8.42</td>
<td>22.70</td>
</tr>
<tr>
<td>Supplier Credit</td>
<td>23.60</td>
<td>0.43</td>
<td>86.30</td>
</tr>
<tr>
<td>Portfolio</td>
<td>44.50</td>
<td>0.81</td>
<td>(0.60)</td>
</tr>
<tr>
<td>Equity</td>
<td>44.50</td>
<td>0.81</td>
<td>(0.60)</td>
</tr>
<tr>
<td>Other</td>
<td>696.40</td>
<td>12.66</td>
<td>31.10</td>
</tr>
<tr>
<td>Loans Long-term</td>
<td>667.60</td>
<td>12.14</td>
<td>23.30</td>
</tr>
<tr>
<td>Loans Short-term</td>
<td>17.70</td>
<td>0.32</td>
<td>6.50</td>
</tr>
<tr>
<td>Supplier Credit</td>
<td>11.10</td>
<td>0.20</td>
<td>1.30</td>
</tr>
<tr>
<td>Total</td>
<td>5,499.40</td>
<td>100.00</td>
<td>478.10</td>
</tr>
</tbody>
</table>

FDI
FDI mostly comprised equity, reinvested earnings and loans from related sources. It recorded a marginal increase of 8% in 2005 and had an 89% share of FPC, a positive signal for sustainability if equity is less volatile than debt. FDI loans were mostly long-term and remained constant in relative terms. They were preferred because they had flexible terms and conditions including low or 0 interest and undefined payment dates.

In 2005, 83% of FDI stock concentrated in four sectors, especially mining (43%) and manufacturing (20%). Mining and wholesale/retail trade were the most dynamic in 2004 and 2005, accounting for half of transactions. In recent years, multinational mining corporations have increased activity in response to better investment climate and rich mineral resources especially Gold.

On the contrary, agriculture, which is a key sector in the economy (for employment and poverty reduction), remained with only 3% of FDI stock and 2% of transactions during 2005.

FDI remains concentrated in regions with good infrastructure and commercial centres (Dar es Salaam, 43%) and mineral resources (Mwanza 26% and Shinyanga 12%).

FDI from OECD sources accounted for 46% of stock in 2004-05 followed by SADC countries to purchase traded shares to the limit of 60% and can only be allowed to participate in initial public offers (IPOs) in event of shares remaining after offers to residents.

Debt
Private sector external debt grew by 3.5% between 2004 and 2005 and accounted for 35% of FPC stock in 2005, justifying growing efforts at its monitoring. Debt from unrelated sources remained mostly long-term, and was lower than debt from affiliated companies. Debt stock was recorded mostly in mining (59%), wholesale and retail (12%) and manufacturing (10%). Debt service remained expensive at around 10% of debt stock in 2004 and 2005.

Domestic Linkages
Linkage of foreign investors to the domestic economy was stronger in 2005 due to improved partnership with local companies, increased employment and growing local sourcing of raw materials, as well as higher local consumption of produced goods.

Corporate Social Responsibility
Investor’s financial contributions to safety and security, health and welfare, education, environment, roads and water, grew by 108% between 2004 and 2005.

Policy implications and future measures
It is important to increase FPC for Tanzania to reap its associated benefits for economic growth and alleviate poverty. Accordingly, policies to support FPC need to work within existing frameworks such as the Poverty Reduction Strategy initiatives, and sector/region specific initiatives such as for agriculture or addressing regional disparity. To attract investment and increase its developmental impact there is need to:

- Continue ongoing efforts to improve the business environment, investment opportunities and government commitment towards private sector led growth.
- Conduct strategic promotion of investment opportunities to attract investors from diversified sources.
- Improve infrastructure and utilities including energy, water, roads and telecommunications and provide incentives to disadvantaged sectors/regions.
- Provide special incentives to export oriented investments through mechanisms like Export Processing zones and Special Economic Zones.

This conceals strong sector variations. Finance (20%), Communication (12.8%) and Manufacturing (9.5%) performed best in 2005. Mining, the leading sector in FDI stock, reported a surprisingly low return of 0.4%, and utilities and social services reported losses, possibly due to development costs of new projects.

Portfolio
Portfolio equity declined in 2004-2005 and remains insignificant, mainly because of restrictions on non-resident trading in the stock market. Non residents are allowed to purchase traded shares to the limit of 60% and can only be allowed to participate in initial public offers (IPOs) in event of shares remaining after offers to residents.

RD
DEBT RELIEF TECHNICAL QUESTIONS

What progress have non-Paris Club creditors made in delivering HIPC relief?

Although overall progress by non-Paris Club bilateral creditors in delivering HIPC relief has been limited in the past year, some creditors have been making strides to provide relief including:

- Hungary and Egypt have joined the ranks of creditors providing full relief, bringing the total to eight creditor countries (also Jamaica, Morocco, Republic of Korea, Rwanda, South Africa and Trinidad and Tobago)
- China, Kuwait and Venezuela have concluded agreements with a number of HIPCs,
- Kuwait, which has been providing relief through the Kuwait Fund for Arab Economic Development (KFAED), is modifying the laws governing the Kuwait Investment Authority (KIA) to make it more HIPC compatible
- Colombia has recently passed a bill permitting the provision of relief to Honduras.

However, overall relief provided is still at only 40% of the expected amount, and Costa Rica and Taiwan, which as two of the largest non-Paris Club creditors account for 20% of expected non-Paris Club bilateral relief, have yet to agree to provide any.


How can the IDA-Debt Reduction Facility (DRF) help HIPCs reduce their commercial debt?

In 2008 IDA approved changes to the IDA Debt Reduction Facility to make it more effective:

- Eligibility for IDA DRF grants to prepare for a commercial debt buyback has been extended on a case-by-case basis to pre-decision point HIPCs. However, eligibility for grants to implement the DRF is still confined to HIPCs which have reached their decision points.
- Bilateral debts, which have been sold to commercial creditors after the country’s HIPC decision point, will no longer be eligible for the DRF, thereby discouraging commercial creditors from buying bilateral debt at a deep discount and then seeking higher returns under the DRF. Similarly, domestic debt sold to external creditors will normally be considered ineligible for DRF.
- Participation thresholds for buybacks will normally not be below 90%. This is aimed at resolving a country’s commercial debt burden more comprehensively as well as avoiding second buybacks and decreasing the value of holdout claims.
- There is to be more flexibility on advisory fees, particularly for larger and more complex cases, thereby enabling countries to hire the best qualified financial and legal advisors.
- IBRD contributions to the DRF will not usually exceed 50% of the costs of any implementation grant, as exceptions have been made to the previous limit of US$ 10 million.

In the past year, the DRF has been used to help finance commercial debt buybacks for Mozambique and Nicaragua and to prepare a buyback for Liberia. The Nicaragua buyback also enabled the country to resolve four outstanding commercial litigation cases totalling US$267 million as the four creditors agreed to participate in the buyback. In doing so these creditors accepted a huge discount of principal and interest, even though this meant they took a significant cut in the value of their legal claim.

What new types of support are available to HIPCs facing litigation?

The African Development Bank is to establish an African Legal Support facility which will provide to member states, (1) technical legal advice on creditor litigation and (2) technical legal assistance to strengthen countries legal expertise and negotiating capacity in issues relating to debt management, natural resources and extractive industries management and contracting, investment agreements, and related commercial and business translations. The facility will come into force when it has been signed by 10 participating states or international organisations and instruments of ratification/approval have been deposited by 7 participating states or international organisations.

The Commonwealth Secretariat has also established a HIPC clinic to provide legal advice to HIPCs that are facing or could potentially face litigation. The clinic, which has a resident legal advisor, aims to support sovereign debtors, and to assist member countries and non-Commonwealth HIPCs. It also intends to hold regional seminars to raise awareness about the legal aspects of debt management. For more information go to http://www.thecommonwealth.org/Inte rnal/140503/157583/hipc_clinic/.