The HIPC CBP held its 14th Steering Committee on 17-19 May in Accra, Ghana, attended by HIPCs (Bolivia, Cameroon, Ghana, São Tomé and Príncipe, and Tanzania), implementing partners and donors. Discussions focused on:

Evaluating Progress in Building Country Capacity
Since the La Paz meeting last November, the debt management capacities of the CBP member states have improved from 2.94 to 2.97. The evaluation presented at these meetings had benefited from more than usual validation by countries and partners, as it had been discussed face-to-face with country debt managers in the inter-regional workshop. The evaluation methodology is also now being used in all CBP events in all regions to evaluate the impact of each event. Participants noted that the most difficult aspect was further to improve the scores of countries in the top ‘A’ band.

Strategic Plans
Based on the evaluations and detailed analysis of country needs, implementing partners presented updated strategic plans indicating how they would reach the CBP’s logframe targets. HIPCs discussed their own plans for reinforcing debt management structures and strategies. Donors asked detailed questions about plans for individual countries and regions, especially asking whether it would be realistic to reach the logframe targets by the end of 2004.

They also stressed the need to focus on new financing policy, to stop countries borrowing excessively after HIPC, by establishing financing strategy committees linked to PRSPs, and overall borrowing ceilings established in transparent ways including parliaments and civil society.

The meeting was also informed of progress on a PALOP Institute, to provide comprehensive training to PALOPs in Portuguese. The PALOP governments had finished a project document and committed to funding 20% of the costs and hosting the Institute. The document is currently being presented to donors and IFIs, and the Institute is expected to launch operations at the start of 2005.

Governance and Advocacy
Participants agreed that current arrangements should continue until the end of phase 3. MEFMI offered to host the Steering Committee meetings in November. The meeting also discussed the Norwegian proposal for a ‘Consultative Group on Debt Management’: it awaits a further document clarifying participation, funding, and the value-added and precise output of the meeting. Partners were urged to organise Ministerial Meetings with other organisations wherever possible, to reduce demands on HIPC Ministers’ time.

Methodology and Distance Learning
The meeting agreed that HIPC CBP methodology should continue to be updated to take account of post-HIPC issues, notably shocks and new financing. Bolivia, Cameroon and Ghana expressed strong support for the achievements of the distance-learning programme.

Information Products
Partners presented a progress report and strategic plan. These indicated that the products were very useful to HIPCs, and provided a route map for further decentralising information products. It was agreed that further decentralisation should await the review findings.

Financial Report
This indicated that by May 2004 partners had spent 67% of the phase 3 budget of $14.9 million, and spending accelerated considerably in 2003-04. Donors and HIPCs discussed whether it was realistic to expect all funds to be spent by the end of 2004.

Decentralisation
It was agreed that the priorities for decentralisation by the end of phase 3 should be ‘core’ activities of regional and national training. Partners agreed clear indicators for decentralisation for these core areas. Decentralising other areas, such as development of methodology, information products, distance learning and advocacy would be left to the review to explore.

Review
The Steering Committee heard and commented on a presentation by the phase 3 review team on its methodology and key questions.

Programme Extension
Donors asked partners to make a recommendation on whether to extend the programme beyond December 2004. On day 3, partners agreed that the programme should be extended to June 2005.
The 2nd Inter-Regional Debt Managers Seminar was organised by WAIFEM, Government of Ghana and DRI in Accra, on May 13-15. It was declared open by Dr. Samuel Nil-Noi Ashong, Minister of State for Economic Planning and Finance.

The seminar afforded HIPC debt managers an unique opportunity to share experiences on naging issues that impact on their debt management. These included HIPC CBP progress, HIPC debt management capacity, lessons from HIPC debt renegotiations, experiences in mobilising new financing, managing the domestic and fiscal debt burden, current HIPC Initiative issues and long-term debt sustainability. They also discussed the CBP’s planned studies on best practices in debt management institutions, macroeconomic convergence and debt management, and strategy analysis for non-HIPCs.

The workshop was attended by 77 debt managers from 34 countries and staff from the CBP partner organisations (BCEAO/BEAC Pôle-Dette, CEMLA, DRI, MEFMI and WAIFEM), who reached the following conclusions:

1. HIPC CBP Progress
Based on the countries’ self-evaluation, a growing number of HIPCs have developed independent capacity to analyse and implement debt strategies, during and beyond HIPC Initiative. Decentralisation of the CBP to regional organisations (ROs) is moving ahead fast in relation to training events, missions, institutional assistance and information products, but coordination of governance and advocacy structures and development of methodology is still coordinated by DRI. Decentralisation to HIPCs is also advancing: a growing number are using largely national resource people in national workshops.

2. Information Products/Distance Learning
Phase 3 has achieved the objective of expanding newsletters to allow contributions from all ROs and HIPC officials, making the newsletter a joint product of all CBP partners. It has also expanded the print run and distribution of newsletters and publications but could go further to meet HIPC demand. The CBP website has been developed from mainly a public relations tool in phase 2, to include valuable CBP technical resources for training and reference, country profiles and contacts, and pages for each partner organisation.

The CBP distance-learning programme is successfully underway in 4 pilot countries (Bolivia, Cameroon, Ghana and Uganda) but needs closer formal links with partners Fellows.

3. Introduction to Phase 3 Review
The 3rd phase of the HIPC CBP is being reviewed by ECORYS-NEI Research and Consulting, to analyse progress and recommend next steps. ECORYS-NEI presented its modus operandi, including reading literature, visiting the implementing partners and 5 HIPCs, and submitting questionnaires to a wide range of stakeholders. The study will focus on:

- the capacity of HIPCs to analyse and manage their debt position;
- their ability to negotiate debt relief with creditors and IFIs;
- RO capacities;
- how fast the essential CBP activities can be decentralized; and
- the technical and financial sustainability of HIPCs and RO capacity.

HIPCs quality-controlled their own self-evaluations of debt management capacity, with assistance from the CBP implementing partners, and commented on key issues arising:

- the number of countries ranked in Band A (high level of debt management) has increased during phase 3 and the scores of almost all countries have increased significantly;
- countries urged the CBP to accelerate its efforts to assist in (especially institutional) areas that go beyond debt strategy analysis and are important for debt management sustainability.

5. Negotiating Debt Relief Under HIPC Bilateral Debt
Countries are still experiencing difficulties in negotiating Paris-Club comparable terms, especially with Russia and non Paris-Club creditors. Failure to negotiate such terms is keeping their debt unsustainable in reality. HIPCs have experienced difficulties in negotiations due to:

- creditor delays in responding to correspondence;
- creditors lacking adequate capacity to design comparable treatment;
- debtors lacking capacity to assess whether proposals are comparable; and
- disputes over accumulation of arrears and penalty interest.
The international community must make greater efforts to clear these debts.

### Multilateral Debt

Debt managers stressed that there is insufficient:  
- consultation between multilateral institutions and HIPCs, or circulation of detailed information, on exactly how multilateral debt relief is implemented; and  
- flexibility on the part of these creditors in agreeing HIPCs’ counterproposals, especially on frontloading debt service relief.

### Litigation

Debt managers are concerned about growing litigation by commercial and non-OECD creditors. They underlined the need to take into account:  
- the particular situation of creditor countries under sanctions;  
- the risk of external creditors moving to domestic courts or transforming external into domestic debt in order to win suits;  
- that lawsuits proliferate if a country shows itself vulnerable to out of court settlements or legal threats;  
- the need to ensure lawsuits have been fully won or dropped, and cannot be reactivated after change of creditor status; and  
- flexiblity on the part of these creditors in agreeing HIPCs’ counterproposals, especially on frontloading debt service relief.

### New Financing Evaluation and Strategy

This session presented the HIPC CBP methodology for evaluating donors on the basis of policies and procedures, using objective criteria, in order to empower HIPCs to identify the donors that provide the most appropriate finance for poverty reduction. It also presented the findings of the analysis so far (see article on page 7). It was agreed that:  
- a new financing strategy going beyond amounts and concessionality is crucial to future development, especially because HIPCs can have debt sustainability problems after completion point;  
- HIPCs must ensure that their development plans (PRSP, MTEF), rather than partner frameworks, become the basis for assistance. Some countries are already doing so, by establishing donor evaluation mechanisms and coordination groups;  
- donors need to accelerate harmonisation behind government policies and procedures, as the myriad of donor procedures places heavy burdens on HIPC officials;  
- the trend to budget support and harmonisation through multi-donor budget support programmes is positive, but also risks excessive cross-conditionality and volatility of aid;  
- countries need to be clear on potential trade-offs between seeking the most concessional funds (to keep down debt) and losing funds from some creditors;  
- a key aim of a new financing strategy is to provide government officials with room to reject pressures for inappropriate funding.

### HIPC Fiscal and Domestic Debt Burdens

The outline of the CBP study on fiscal sustainability of debt was presented, focussing above all on budget-related indicators linked to fiscal revenues. HIPC debt managers:  
- welcomed the study of fiscal sustainability and endorsed the primacy of ratios related to fiscal revenues;  
- shared their experiences in domestic debt matters, stressing that non-securitised debt was vital (Bolivia’s pension reform and Sierra Leone’s arrears to suppliers);  
- suggested the need to take into account more detailed indicators related to sub-components of government (states, parastatals); and  
- suggested looking how to determine an optimal financing mix (between external and domestic financing).

### Studies on Institutions, Convergence and Non-HIPC Strategy

The outlines and workplans for three other studies were presented and endorsed by debt managers, who offered to participate in case studies.

### Current HIPC Initiative Issues

- HIPCs discussed the recent controversy over topping up and were briefed on the latest developments. They agreed that topping up at completion point should certainly offset all exogenous shocks, including changes in exchange and interest rates.  
- They also underlined the severe negative consequences associated with delays in countries reaching completion point, notably that HIPCs run out of interim period relief, resulting in a large increase in debt service payments. They stressed that, from a HIPC viewpoint, these delays reflected inflexible conditionality.

HIPCs welcome the paper as a more open-minded view of debt sustainability than the HIPC paradigm, especially for proposing using multiple indicators for post-completion point HIPCs or low-income non-HIPCs (PV/stock & PV/service compared to GDP/exports & GDP/budget revenue). However, they insist that the primary indicator should be debt service compared to budget revenue. They also observe that the paper recommends an odd combination of prescription (on policy linkages) and vague judgement in other areas. In particular, sensitivity tests on shocks are not enough: they prefer foreseeable shocks to be included in baseline projections. In addition, the framework needs more objective indicators on domestic and private sector debt, which are growing burdens for most HIPCs, and on debt management and new financing, in order to allow HIPCs to fund the MDGs without unsustainable debt.
Once a country has reached the HIPC initiative completion point, which in principle means that its external debt has once again become sustainable according to the criteria of this initiative, what should be done to ensure that this new sustainability – so costly to achieve – is not altered? In addition to efforts aimed at promoting rigorous macroeconomic management and sound governance, one of the best ways of durably preserving public debt sustainability lies in the policy of mobilising new financings, both external and domestic.

Five countries in the CFA Franc Zone have reached the HIPC II completion point to date. These are:

- Burkina Faso, in April 2002;
- Mali, in March 2003;
- Benin, in March 2003;
- Niger, in April 2004; and
- Senegal, in April 2004.

Country-specific constraints, centred mainly on whether or not donors’ policies and practices are well monitored, as well as cumbersome administrative procedures, influence and differentiate the disbursement profiles of external financings. But an analysis of the countries’ new external financing policies reveals many similarities, which are justified by the fact that these countries belong to the same economic zone, the WAEMU, are subject to the same economic convergence criteria, have low income and are highly dependent upon exports driven by a single product.

CURRENT ORIENTATIONS OF EXTERNAL FINANCING MOBILISATION

Lack of domestic savings and a limited financial market oblige the countries, even beyond the completion point, to continue to favour the mobilisation of external resources in order to finance their development. Important changes are, however, appearing in comparison with earlier practices that lined the nest for indebtedness. In contrast to the past, current practice actually confirms the will to implement more prudent and thought-out debt policies, which give greater consideration to the sources, terms and risks associated with new financings, and which ensure that a clearly defined and identified need does exist. This new orientation is reflected in two approaches, one of which represents a strategic choice and the other a political choice.

MOBILISATION OF NEW EXTERNAL FINANCINGS: THE STRATEGIC CHOICE

Aware of the low level of their revenues and the extreme need to combat poverty, countries have made the strategic choice to favour the mobilisation of external financings that do not generate debt, such as direct investment or grants. Where these countries find themselves obliged to look for external loans, their priority remains to mobilise concessional financing. To this end, Mali mobilised grants representing 69% of its external financing, from 1999 to 2003. For the remaining part, Mali looked for external loans with a rather high grant element level. Benin and Niger, on the other hand, opted for loans with a grant element of over 35% and 50% respectively. In addition, due to their low revenues, most of the countries are liable to IDA, and, according to the IMF’s conditionalities, they may only contract loans with a degree of concessionality equal to at least 35%. This conditionality forces these countries to favour multilateral financing sources and to only resort to bilateral sources as a subsidiary measure. Practically no HIPC country in the CFA Franc Zone contracts commercial loans.

The other aspect of the strategic option of the new financing policy is that HIPCs allocate external resources as a priority to projects that contribute to reducing poverty (for instance, 59% of external aid mobilised by Burkina Faso from 1999 to 2003).

MOBILISATION OF NEW EXTERNAL FINANCINGS: THE POLITICAL CHOICE

In order to avoid uncontrolled indebtedness, more and more countries have decided to put in place structures to coordinate their debt management with their macro-economic policies. This coordination is implemented within the framework of national public debt committees. This choice comes with numerous implications, in particular:

- the desire to set a more rational ceiling on the resources to mobilise in the form of loans: one of the functions of public debt committees is to fix annual debt ceilings based on an analysis of the medium-term viability of public finance and of the long-term sustainability of public debt;
- centralising the power to financially commit the State, so that this commitment decision lies in the hands of a single governmental body; in several countries, financing negotiations are carried out by the Planning Ministry and/or the Finance Ministry, although it is the Minister of Finance who signs new loan agreements. With the implementation of national public debt committees, decisions are becoming more participative, and include multi-disciplinary and multi-sectoral aspects;
- priority allocation of resources to sectors driving growth and to the fight against poverty; public debt committees are supported by technical teams responsible for analysing the real impact of financing on development and debt sustainability. Consultation on how to use the new financings guarantees the projects’ relevance and economic profitability and allows better targeting of resource allocation;
- deeper-rooted recognition of international debt management standards: systematically performing Public Debt Sustainability Analyses allows countries to redefine the main objective of public debt management as meeting the government’s financing needs and its obligations to repay at the lowest possible cost, while maintaining risk at a prudent level. This redefinition is in contrast with the previous attitudes, which put more emphasis on mobilising resources and servicing the debt.
BOLIVIA AND HIPC II

The World Bank (WB) and the International Monetary Fund (IMF) set up the HIPC Initiative in 1996, in order to reduce the external debt of heavily indebted poor countries to ‘sustainable’ levels.

Bolivia reached the decision point, under the HIPC I framework, in September 1997, and the completion point in September 1998. As from this last date, the international financial community began to implement the different mechanisms for the pledged relief, which amounted to approximately US$448 million in NPV terms (US$760 million in nominal terms). It is important to point out that, in the case of Bolivia, the implementation of suitable macroeconomic policies and the degree of progress in the structural reform programmes has made it possible to reduce the time between the decision point and completion point of HIPC I to one year.

The relief pledged to Bolivia under the HIPC I framework made it possible to reduce the NPV of the debt at the end of 1998 from US$3,725 million to US$2,895 million, equivalent to 213% of the exports of goods and services. Furthermore, Japan decided to provide exceptional relief to Bolivia for the pre-cut-off date ODA debt, through grants to cover the debt service. This was effective for two years only, due to the fact that this debt was cancelled under the HIPC II framework. Consequently, the actual relief that Bolivia obtained under HIPC I was US$476 million in NPV terms (approximately US$788 million in nominal terms).

BOLIVIA AND HIPC II

In February 2000, Bolivia reached the decision point under the HIPC initiative framework, and in June 2001, reached the completion point. The estimated relief under the HIPC II framework is US$1,188 million in NPV terms, which is equivalent to approximately US$1,776 million in nominal values.

On the other hand, the ‘Cologne Initiative’ recommended providing HIPCs with additional relief to that granted by the Paris Club under the HIPC II framework, consisting of total cancellation of the bilateral debt. Germany, Italy, Japan and the United States announced their intention to provide this relief to Bolivia. France and Spain are also providing partial relief under this framework (with terms of several years).

This initiative is known as ‘Beyond HIPC’.

HIPC ADDITIONALITY PRINCIPLE

According to the IMF and the WB2, a fundamental principle of the HIPC Initiative is that the new financing measures for development (loans on concessional terms) and the transfer of resources (grants) should be additional to and available over and above the HIPC relief. Creditors and donors are responsible for ensuring that their governments meet their commitments in this regard.

Therefore, in order for the HIPC Initiative to meet its objectives, it was emphasised that this should represent a net additional financing, in order to ensure that any increase in the allocations for the HIPC Initiative should not be detrimental to existing aid flows. This is the principle of additionality.

In this same sense, the WB and IMF Development Committee, in its communiqué of April 1999, confirmed that the new financing for the HIPC countries should be in the form of grants or on highly concessional terms.

HIPC ADDITIONALITY IN THE CASE OF BOLIVIA

In order to analyse HIPC ‘additionality’ in the case of Bolivia, a comparison has been made between the indicators of external concessional assistance which Bolivia received in the six years prior to HIPC (pre-HIPC period, 1992-1997), and those for the six years after reaching the completion point under the HIPC I framework (HIPC period, 1998-2003).

Concessional assistance will be measured through the sum of non-HIPC grants, plus the net concessional financing (disbursements less concessional repayments), plus HIPC and ‘beyond HIPC’ relief, plus exceptional financing3. Thus, Table 1 shows the average external concessional assistance to Bolivia in millions of US Dollars for the two periods analysed. It can be seen that in the pre-HIPC period, concessional assistance of US$537.9 million was received. In the HIPC period, on average, US$14 million more concessional assistance was received annually than in the pre-HIPC period (US$551.9 million). This would mean that, in the case of Bolivia, there would be an average additionality of US$14 million per annum. However, if no HIPC relief had been received, then the average annual concessional assistance would have been US$87 million less than in the pre-HIPC period (concessional assistance excluded from HIPC).

In view of the state of the Bolivian economy, an annual US$14 million of additionality seems insufficient to combat poverty effectively. In order to

Table 1. External Concessional Assistance to Bolivia (in millions of US$)

<table>
<thead>
<tr>
<th>Breakdown</th>
<th>Average 92-97</th>
<th>Average 98-03</th>
<th>Diff 98-03 &amp; 92-97</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Grants (non-HIPC)</td>
<td>223.1</td>
<td>199.3</td>
<td>-23.8</td>
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<tr>
<td>2. Net external concessional loans to the public sector</td>
<td>146.8</td>
<td>182.4</td>
<td>35.6</td>
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<td>3. HIPC relief</td>
<td>0.0</td>
<td>87.3</td>
<td>87.3</td>
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<tr>
<td>4. Beyond HIPC relief</td>
<td>0.0</td>
<td>13.8</td>
<td>13.8</td>
</tr>
<tr>
<td>5. Exceptional financing</td>
<td>168.0</td>
<td>69.2</td>
<td>-98.9</td>
</tr>
<tr>
<td>B. Concessional assistance excl. HIPC (1+2+5)</td>
<td>537.9</td>
<td>450.9</td>
<td>-87.0</td>
</tr>
<tr>
<td>C. Concessional assistance incl. HIPC (1+2+3+4+5)</td>
<td>537.9</td>
<td>551.9</td>
<td>14.0</td>
</tr>
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</table>

Table 2. External Concessional Assistance to Bolivia (as a percentage of GDP)

<table>
<thead>
<tr>
<th>Breakdown</th>
<th>Average 92-97</th>
<th>Average 98-03</th>
<th>Diff 98-03 &amp; 92-97</th>
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</thead>
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<td>1. Grants (non-HIPC)</td>
<td>3.5%</td>
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<td>2. Net external concessional loans to the public sector</td>
<td>2.2%</td>
<td>2.3%</td>
<td>0.0%</td>
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<tr>
<td>3. HIPC relief</td>
<td>0.0%</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>4. Beyond HIPC relief</td>
<td>0.0%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>5. Exceptional financing</td>
<td>2.7%</td>
<td>0.8%</td>
<td>-1.8%</td>
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<td>B. Concessional assistance excl. HIPC (1+2+5)</td>
<td>8.4%</td>
<td>5.5%</td>
<td>-2.9%</td>
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<tr>
<td>C. Concessional assistance incl. HIPC (1+2+3+4+5)</td>
<td>8.4%</td>
<td>6.8%</td>
<td>-1.6%</td>
</tr>
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</table>

1 By Carlos Ernesto Gonzáles Rocabado, Central Bank of Bolivia. 2 The Challenge of Maintaining Long-Term External Debt Sustainability’. Development Committee (Joint Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries), 17 April 2001. 3 Exceptional financing corresponds to the relief received by Bolivia from the Paris Club for debt restructuring before the HIPC period (traditional relief), plus the flow of arrears and exceptional payments. Traditional relief corresponds to the relief estimated in the completion point document for Bolivia under the framework of the original HIPC Initiative.
Two years ago the HIPC CBP introduced its methodology for designing new financing strategies. A key component of this methodology is the analysis of donor and creditor policies and procedures to help HIPC countries identify the 'best' external financing aid to fund their poverty reduction and economic development programmes, and how to improve the quality of all their external finance.

Traditionally the new financing policies of HIPC governments have focused on the concessionality of funds being provided, as measured by the grant element, with priority being given to grants whenever possible, and the amount of resources each donor or creditor has been willing to provide. The types of assistance (programme, project or technical assistance) and the sectors being supported by the funds have often been donor-driven, rather than government-led, while donor and creditor disbursements and procurement methods and procedures have caused significant delays in the actual delivery of resources to HIPCs.

The CBP methodology takes into account the traditional quantitative factors, such as the concessionality and amount of funds being provided by individual donors and creditors. However, more importantly, it enables countries to assess the qualitative aspects of donor and creditor aid policies, which include type of assistance (programme, project or technical assistance), predictability and flexibility of resources, conditionality of the funds, support for PRSP priority sectors and projects and whether funds are channelled through the HIPC government’s budget. It also, and allows them to assess donor/creditor procedures for disbursement and procurements, such as the method of disbursement (reimbursement claims or direct cash payments to foreign suppliers or the government), the number and complexity of procedures (including matching requirements and tying of assistance) and the extent of donor and creditor co-ordination amongst themselves and with government, and the impact these have on the actual delivery of aid.

A set of 23 evaluation criteria, grouped under 12 headings, have been developed, with scoring 1 (lowest) to 5 (highest), to enable countries to assess the overall quality of each donor’s and creditor’s resources on an objective basis and then to use the results to prioritise the donor and creditor sources of future new financing, as well as to identify priority areas in which the international community as a whole needs to accelerate its efforts to change policies and procedures.

Based on feedback from participants and regional experts at national and regional strategy workshops and attachments to DRI, the CBP new financing methodology has been further developed and refined.

The results, by creditor category, of the analysis of donor and creditor policies and procedures conducted to date, by eleven HIPC countries, were presented by creditor category at the May 2004 CBP Inter-Regional Workshop in Accra (see page 2). In terms of donor and creditor policies, as shown in Chart 1, the most problematic issue for HIPC governments is the lack of flexibility of funds, as many donors and creditors are much less willing than desired to provide additional budget or balance of payments support to meet exogenous shocks, or to switch funds to government priority sector as shown in chart 1. Excessive conditionality on funds, poorer types of assistance being provided, funds continuing to go to non-priority sectors and projects and low predictability of funds (donors failing to disburse as pledged, to pledge multiyear funding, or to disburse in line with HIPCs’ budget timetables) are other very important also aspects of donor and creditor policies which affect the efficient and effective delivery of aid resources to HIPCs.

Multilateral sources of finance are more desirable than bilateral in that they tend to be more reliably channelled through budgets, to the priority sectors and projects of the government, and more predictable. On the other hand, bilateral sources have more concessionality, more flexibility and less conditionality.

As for donor and creditor procedures, lack of co-ordination among donors on policies and procedures and disbursement methods causes the most delays in disbursements overall, with over-complex disbursement methods, such as reimbursement claims, coming a close second. Disbursement and procurement procedures are

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**Chart 1 - Analysis of Donor/Creditor Policies - average score by category**

- **Concessionality**
- **Types of assistance**
- **Channels of assistance**
- **Sectors and projects**
- **Flexibility**
- **Predictability**
- **Conditionality**

**Chart 2 - Analysis of Donor/Creditor Policies - average score by category**

- **Conditions precedent**
- **Disbursement method**
- **Disbursement procedures**
- **Procurement procedures**
- **Co-ordination**

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(cont. page 16)
### HIPC Initiative and PRSP Progress: July 2004

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

<table>
<thead>
<tr>
<th>Country</th>
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<th>PRSP Dates</th>
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<td></td>
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<td>Burkina Faso</td>
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Dates for HIPC decision and completion points and PRSPs are those of final BWI Board approval. Most governments have published PRSPs several months before BWI approval.
### Key Debt Relief and New Financing Issues

- **HIPC CBP DSA shows ratios under HIPC thresholds**
- Most creditors provide relief, unsustainable due to new borrowing
- Debt unsustainable after new borrowing; export shock; heavy fiscal debt burden
- First to get additional relief at CP, large new borrowing allowed
- Donor funds to clear multilateral arrears. PC Naples rescheduling March 2004
- 79% buyback from IDA on commercial debt, 2 lawsuits. Paris Club consolidation period extended to December 2004
- Political instability postpones HIPC timetable, multilateral arrears accumulating
- 10 non-Paris Club creditors not providing relief, delay to CP
- High debt burden, plans own DSA soon. HIPC timetable uncertain
- IMF grants US$1.7m additional interim assistance July 04
- Oil-guaranteed commercial loans, DP requires track record
- DP delayed because of civil conflict. World Bank suspended disbursements
- CP topping up of $707m of offset CIRR and exchange rate changes
- Interim IMF relief lapsed, 2nd tranche Paris Club relief not implemented

### Key Macroeconomic and Poverty Reduction Issues

- Participation of some Non-Paris Club and commercial creditors remains an issue
- IMF, AIDB, PC interim relief suspended
- IMF and Paris Club have suspended relief
- CP achieved; PC Cologne terms agreed; commercial lawsuit dropped
- Interim relief expired; PC rescheduling arrears & service due. Debt sustainability expected at CP.
- DSA shows ratios under HIPC thresholds. PC Houston Terms relief
- Agreement reached with Russia. HIPC eligibility uncertain
- Debt stock estimated $3bn (600% of GDP), nearly all in arrears
- No relief from non-Paris Club creditors, except China and Kuwait
- IMF interim relief resumed and Paris Club agreement enforced Nov 2003

### Difficulties with non-PC, commercial creditors

- No relief from some non-Paris Club creditors (Algeria, Kuwait, FKDEA)
- Non-Paris Club problems/lawsuit keep debt unsustainable
- No WB lending since 1987. Probably unsustainable
- CP achieved in January 2004
- CP topping up of $142.5m for unanticipated new borrowings, CIRR and exchange rate changes

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

- Taiwan wins lawsuit PRGF extended to December 2004. PRSP progress report soon
- Good PRGF record, despite exogenous shocks
- PRGF off-track. Donors’ budgetary support suspended
- IMF interim relief expired end-2003. India has cancelled all ODA debt
- PRGF review approved in April 2004. PRSP on-track: 5th PRSC reviewed and adopted by Parliament in June 2004
- PRGF agreed and I-PRSP approved, both in January 2004
- PRGF extended to Dec 2004, PRSP progress report soon
- PRGF agreed in June 2004. CP postponed

###PRGF delays. Work on new PRGF to start in 2005. HIPC timetable uncertain

- PRGF review/PRSP progress report approved Oct 2003, drought shock PRGF delays. Work on new budget to commence. CP delayed
- Multi-donor budget support programme set up. PRSP progress report finalised and IBWs staff assessment published June 04

###DP delayed because of civil conflict

- Civil conflict delays PRGF and full PRSP
- On track with PRGF
- No current prospect of debt relief
- No prospects for new relief
- PRGF second review approved Dec 2003. PRSP revision due soon
- IMF grants US$6.6m additional interim assistance in June 04. Will be unsustainable at CP.

###PRSP progress report completed. Understandings reached on policies for 2004

- New SMP to start in 2002, new PRGF in 2005. PRSP progress report due soon
- Donor/ WAEMU supported Emergency Economic Management Plan approved
- SMP to start in 2002, new PRGF in 2005. PRSP progress report due soon
- No IMF programme since 1981-82

###Accumulating large arrears to creditors

- Multi-donor budget support programme set up. PRSP progress report finalised and IBWs staff assessment published June 04
- No relief from some non-Paris Club creditors (Algeria, Kuwait, FKDEA)
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A joint DRI/Pôle-Dette mission visited the loan agreement and in certain technical aspects of trained in the various aspects of examining a draft agreements prior to their signature. During the mandate are to coordinate debt management and establishment of both organisations, of which to help the Chadian authorities complete the National Debt Analysis Committee (CONAD) and the Debt National Workshop, from left to right: Jaime Coronado Quintanilla, CEMLA HIPC CBP Coordinator; H. E. Bharat Jagdeo, President of Guyana; Donna Yearwood-Waldron, Head Debt Management Division, Guyanese Ministry of Finance; Juan Carlos Villanova Pardo, DRI Programme Manager. CHAD.

During April to June the HIPC CBP organised the following events:

**Institutional Management Assistance/Missions**

Burkina Faso and Mali. Pôle-Dette and DRI jointly organised institutional assistance missions to Burkina Faso from 12 to 21 April 2004 and to Mali from 31 May to 11 June 2004. Their purpose was to identify and examine in conjunction with the respective authorities measures aimed at reconciling the institutional organisation of debt management with international standards. Following discussions and analysis of legislation, the following recommendations were made to the authorities:

- Reform of the legal and institutional debt management system, which should be based on a global and consistent vision of debt policy and supported by legal mechanisms at macro and micro administrative level, in line with reform of the debt policy control and evaluation systems;
- Reinforcement of the public debt management coordination system with the other economic policies, alongside and consistent with reform of the aforementioned legal and institutional debt management framework. This reinforcement will depend firstly on a consensus on the debt management objective given concrete form by law and secondly a consensus on the objectives of debt management coordination;
- A capacity building programme based on a reliable information system, the quality of skills capable of covering the scope of operational debt management and training of the national public debt committee.

Chad. A joint DRI/Pôle-Dette mission visited N’Djamena from 10 to 18 May 2004 to assist the National Debt Analysis Committee (CONAD) and the Debt Sustainability Analysis Technical Team, both set up in March 2004. The purpose of this mission was to help the Chadian authorities complete the establishment of both organisations, of which mandates are to coordinate debt management and to analyse and provide advices on all draft loan agreements prior to their signature. During the mission the members of both organisations were trained in the various aspects of examining a draft loan agreement and in certain technical aspects of coordinating debt management with macroeconomic policies.

**Comoros.** At the request of the government, DRI assisted the National Debt Directorate (NDD) in drafting their Debt Laws (debt procedures and national debt committee) as well as a Debt Management Procedures Manual. Staff from NDD produced preliminary versions of documents on which DRI provided comments, NDD is now finalising the documents. The NDD also forwarded an electronic copy of their external debt database that was built in Access, pending introduction of a proprietary system. Validation by DRI shows that it is not yet completed.

**National Workshops**

**Ethiopia Post-HIPC Financing Workshop.** As part of the CBP’s intensive assistance to Ethiopia, this workshop, in Addis Ababa from 24 May-4 June, assisted the Government to prepare an updated new financing and debt strategy, following Ethiopia’s completion point in April 2004. There were 28 participants from the Ministry of Finance and Economic Development, National Bank of Ethiopia and key line Ministries. Resource People included DRI, CEMLA, MEFMI and WAIFEM region experts. The results show that even after topping up at its completion point, Ethiopia’s PV/exports ratio will be above the 150% threshold for the next decade. At present the ratio of new external grants to loans is projected to be 65%/35%. A policy of mobilising more grants would make Ethiopia’s debt sustainable much more rapidly. During the workshop officials also analysed donor and creditor policies and procedures in order to identify to the best possible sources of new resources to support the

**Guyana National Workshop from 10 to 18 May 2004 to assist the**

**Mauritania Post-HIPC & New Financing Workshop.** Mauritania reached HIPC Completion Point in June 2002 and this second national workshop, held in Nouakchott from 4 to 14 April, enhanced officials’ skills in debt strategy analysis, and exposed them for the first time to domestic debt and new financing analysis. There were 37 participants, including 5 national trainers, from the Central Bank of Mauritania, Ministry of Finance, Ministry of Economic Affairs & Development, Mauritanian Centre for Policy Analysis, Commission for Human Rights, Poverty Reduction & Social Integration and other line ministries. Other resource people came from the Pôle-Dette region. The workshop tested many scenarios, of which two were found most representative. Under all scenarios, Mauritania’s debt is unsustainable in terms of PV revenue and PV exports for several years due to the fall in international discount rates. With a realistic scenario, including the impact of non-participation by some non-Paris Club bilateral creditors and less grant financing, sustainability is attained only in 2011. Under an optimistic scenario, with more optimistic macroeconomic trends to reach the MDGs, relief from all non-Paris Club creditors and higher grants, debt ratios are sustainable from 2005 for PV/budget revenue and 2008 for PV/exports.
Regional Workshops

Regional New Financing Strategies and Training for Trainers Workshop. MEFMI and DRI held a regional workshop in Lusaka, Zambia, which was divided into two modules: New Financing Strategies from 14–19 June and Training for Trainers in External and Domestic Debt Strategies from 21-30 June.

The objective of the New Financing Strategies part of the workshop was to train participants in CBP new financing strategy methodology and tools so that HIPCs can consolidate debt sustainability beyond the HIPIC initiative, by focussing on loans and grants needed to finance poverty reduction and economic development, and identifying donors and creditors who support government policy objectives. The 25 participants were drawn from four MEFMI HIPCs (with observers from Kenya). The main conclusions were that countries need to:

- exchange information on terms and conditions negotiated with donors and creditors;
- prepare compendiums of donor policies and procedures to assist senior government officials when mobilizing new financing;
- considerably improve data on grant aid to facilitate analysis.

The main objective of the Training for Trainers part of the workshop was to consolidate the training skills of previous and potential trainers on external and domestic debt strategy. Other technical groups were not included as MEFMI feels that its region has adequate skills in debt data, macro and poverty reduction. Seventeen participants were drawn from four MEFMI HIPCs and the training emphasised the design of debt strategies, the use of Debt-Pro© and interpretation of sustainability ratios. During the workshop, MEFMI and DRI took advantage of their presence in Lusaka to meet the Director of Investment and Debt Management in the Ministry of Finance and National Planning to discuss the need to update the National Debt Strategy prior to Completion Point. It was agreed in principle, to form a core team of Zambian officials who will be assisted by the CBP, to update the DSA in preparation for the Completion Point.

Debt Advisors

Burundi. The second mission of the Capacity and Debt Advisor Project took place from 14 to 25 June. This mission assessed macroeconomic management and analysis – documenting data sources and assumptions; reviewing the use of macroeconomic projections and training staff in financial programming and design of 20-year projections; and assessing the macroeconomic model currently in used at the Planning Ministry. A training session on macroeconomic projections was organised for 15 officials, through practical exercises with Burundian data in the macro model used by the HIPIC CBP.

The mission also participated in a meeting of the Debt Management Technical Committee (DMTO) to follow up the recommendations of the mission conducted last February. It made updated recommendations for improving coordination on debt management by making the DMTO more proactive through a clearly defined work programme, establishing a macroeconomic working group, and improving coordination of various donor capacity-building interventions. It also recommended improvements to the use of the UNCTAD DMFAS debt management system and a wide range of training interventions on external and domestic debt strategy, and new financing for the PRSP, before the National Debt Strategy Workshop scheduled for late 2004.

HIPC CBP STEERING COMMITTEE MEETING

The 14th HIPC CBP Steering Committee meeting took place in Accra (Ghana) from 17 to 20 May 2004. For more details, see article on page 2.

Attachments

In the framework of Pôle-Dette’s Fellows Programme, Messrs Pierre Ndiaye and Babakar Fall from Senegal were attached to DRI from 24 May to 2 June in order to expand on their respective areas of specialisation, namely ‘Debt sustainability analysis and development of debt relief strategies’ and ‘Poverty reduction strategy and sustainable human development’. This gave them an opportunity to research the background to certain concepts used in their professional capacities, to develop models or matrices useful in their respective field and also to consider more closely a more detailed plan for their research topic.

Liaison

DRI participated in a meeting in Maputo on 22-23 April at which PALOP governments presented a proposal for a PALOP Macroeconomic and Financial Capacity-Building Institute, and received strong pledges of IFI support and funding, for an institute that will begin operations in 2005. DRI also presented findings based on HIPC government views of debt relief and the IMF role in low-income countries at meetings in The Hague, Rotterdam, Stockholm and London.

Future Activities

The CBP work programme for July to September 2004 is summarised below:

- Debt Advisors: missions to Burundi, Comoros, Guinea, and Rwanda; start of the Mozambique intensive assistance programme;
- Debt Strategy Analysis preparatory missions to Angola and Malawi;
- Institutional Management Missions to Central African Republic, São Tomé & Príncipe, and Togo;
- Regional Workshops: CEMLA New Financing Workshop, PALOP Training for Trainers, WAIFEM Training for Trainers;
- Sensitisation Seminar for Mauritania;
- Attachments: from Pôle-Dette and MEFMI regions to DRI; from CEMLA region to the World Bank (Washington, DC), the Government of Columbia and CEMLA headquarters.
FOREIGN PRIVATE CAPITAL CBP UPDATE

In the second quarter of 2004, Bolivia, Kenya, Trinidad and Tobago and Uganda started new cycles, Malawi and Tanzania finalised their current cycles, and six other countries finalised proposals for participation. The FPC CBP made significant methodology advances, and conducted a second round of capacity evaluations.

COUNTRY PROGRESS

Bolivia submitted its benchmark capacity evaluation to DFI and CEMLA. It is preparing for its opening awareness and training workshop, scheduled to follow the forthcoming referendum. Meanwhile, it is continuing with its system of quarterly data collection, so as to ensure a complete time series by the time of introducing the revised methodology.

The Gambia finalised its proposal to re-enter the FPC CBP and is negotiating funding with donors and among government institutions.

Ghana reorganised its National Taskforce, presented its draft proposal to a large group of countries, and is incorporating their comments so as finalise funding in Q3.

Kenya is continuing with preparatory work for entry into the programme, while the Statistics Strategic Plan is being finalised in the wake of the change in Government and personnel in the lead institutions.

Lesotho, Namibia, and Swaziland are preparing a proposal for joint entry as part of the Common Monetary Area of Southern Africa, with support from MEFMI and DFI.

Malawi has secured local funding for future sample surveys (cycle 2 under phase II), prior to launching the surveys in the third quarter.

Tanzania is finalising its first cycle under Phase II. MEFMI/DFI conducted a mission in April to support the Tanzanians with training on advanced analysis and report writing. Tanzania is providing increased funds for cycle 2 (sample surveys), and mobilising donor funding for international costs.

Trinidad and Tobago has requested a mission during the third quarter, for training staff in advanced analysis and updating survey methodology.

Uganda has finalised its analytical report from cycle 1 of phase II, and a May DFI/MEFMI mission assisted in launching cycle 2, through awareness and training events run largely by nationals. Institutions of the Working Group have agreed to finance 100% of local expenditures, and are approaching donors for funding of external costs.

Zambia has prepared its proposal for phase II and identified local donors to finance the exercise. The team aims to re-enter the FPC CBP in the third quarter.

OTHER ACTIVITIES

Partners concluded the second round of country capacity evaluations (see page 14). The CBP rapidly advanced with manuals, including:

- a national taskforce manual to assist data and project management;
- updating the enumerator manual for field officers;
- revising the opening awareness and training manual;
- creating a project managers’ manual to train regional partners and consultants in management and technical aspects of the FPC CBP;
- finalising a draft software manual for testing by countries;
- financial and administrative procedures manuals.

New best practice methodology was developed, including:

- designing investor registers and samples (see page 15);
- checklists of non-survey data sources;
- analytical report writing guidelines;
- software tools to check databases and improve analytical output.

New information products included:

- A revised opening awareness and training manual uploaded on the website;
- monthly listserves to inform taskforce members of latest developments;
- 25 new members of the closed website pages; 4,354 visits per month to the website, and over 250 users of the FPC pages of the last Newsletter.

The third Steering Committee meeting was held in Accra (see box).

FUTURE WORK PROGRAMME

During July to September, the FPC CBP will:

- Launch the second project cycle under Phase II in Malawi and Tanzania;
- Launch the first project cycle in Bolivia, Ghana and Kenya;
- Send a follow up mission to Trinidad and Tobago;
- Conduct the Francophone Regional Workshop with BCEAO;
- Conduct a National Workshop for Bolivia with CEMLA;
- Plan the CEMLA Regional Workshop;
- Produce two publications;
- Finalise revised enumerator manuals;
- Increase the transfer of responsibilities to partners and countries at events.

FPC CBP STEERING COMMITTEE MEETING

ACCRA, 20 MAY 2004

WAIFEM hosted the third FPC CBP Steering Committee, at which:

- Partners agreed ways to ensure the financial sustainability of the CBP;
- BCEAO and DFI agreed arrangements for the forthcoming Francophone Regional Workshop;
- CEMLA and DFI signed their Memorandum of Understanding and discussed their Regional Workshop due in Q4, and their respective institutional roles;
- Partners agreed to design detailed indicators for decentralisation;
- Country representatives and regional partners highlighted their priorities and expectations in the FPC CBP, in the context of the capacity evaluations;
- Partners also reviewed progress with Bolivia, Ghana and Tanzania’s programmes.
Partners implemented the second FPC CBP country capacity evaluation (CCE) from February to April 2004 to update for progress since October 2003 (see Newsletter 18 for first results), including the first evaluation for Bolivia.

Summary of Country Self-Evaluations
Results are shown in Table 1, based on ranks between 1 (very poor) and 5 (international standards). They include seven ratings at the start (1999, the date of the first FPC CBP mission) and October 2003, plus Bolivia in May 2004.

As reported in issue 18, by October 2003, dramatic progress had been made in basic areas which countries had identified as early priorities, notably the conduct of surveys of foreign private capital, the recording and compilation of results, and basic analysis of results. Countries had also considerably improved their scores on institutional issues (areas I–III), their compliance with international codes and standards, more advanced analysis of results, and their political priority and transparency. Lagging areas were non-survey methods and the design of private sector development financing strategies. Overall capacity has progressed by 0.98, reaching 2.83.

Since October 2003, delays in mobilising funds for follow-up projects have prevented 3 countries from improving their scores, slowing the pace of advance. The average therefore increased by only 0.09 to 2.92, due to progress in Malawi, Tanzania, Trinidad & Tobago and Uganda.

Most progress was made in:
- Compliance with International Codes and Standards: as countries gained more knowledge and experience, all moved on or close to BPM5 standards, and increasingly used the results of FPC surveys for all BoP and IIP data.
- Recording & Compilation: as countries use and understand FPC software, make their databases more accurate and include Investor Perception and IIP data. However, countries need to focus on registers and other technical manuals.
- Human Resources: countries improved job descriptions and staff numbers, and the political prominence of FPC results increased motivation as staff appreciated their contribution to national development. Most NTFs, however, still need additional officers to execute the FPC workload, and improved workplan monitoring.

Conversely, the least progress occurred in:
- Design of a Development Financing Strategy: the CBP is only just advancing on methodology in this area, having concentrated on other more basic areas.
- Conduct of Surveys. Though the scores remain high in this area, countries need to focus on improving data comprehensiveness, reliability and timeliness.

Outlook
Based on the above findings, the implementing partners remain confident that programme logical framework targets will be met, with at least 2 countries moving to the A band by the next evaluation in October 2004. To ensure this, the FPC needs to:
- Complete all methodology developments by the end of 2004.
- Conduct DAMs and training events in Q1 each year, and closing workshops by Q3, to enhance data timeliness.
- Organise regional workshops with BCEAO (for the entire CFAF Franc Zone, Q3 2004) and CEMLA (Q4 2004) to explore prospects for extending the programme.
- Hold the Training-for-Trainers workshop in mid-2005 to deepen training capacity.
- Accelerate transfer to ROs through on-the-job training in missions and workshops.
- Advocate use of programme findings during missions, executive fora, regional events and international meetings.

Table 1 – FPC CCEs by Evaluation Area: Start, October 2003 and May 2004

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<td>Overall Average</td>
<td>1.85</td>
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1. Gambia, Ghana, Malawi, Tanzania, Trinidad & Tobago, Uganda and Zambia.
Attracted by its stable political environment and strong economic performance in the last decade, foreign investments continue to flow into Uganda. The Bank of Uganda, Bureau of Statistics, Investment Authority and Private Sector Foundation have been working for 3 years with DFI and MEFMI to monitor them more accurately and inform policymakers about policy implications. The latest survey results confirm that Uganda is now the 11th highest investment destination in Africa. In addition, an international donor recently used the results to pledge US$45 million to Uganda over the next 3 years.

OVERALL STOCKS AND FLOWS
The structure of Uganda's balance of payments is relatively stable, as most of its external liabilities are in long-term investments, namely FDI that is predominantly equity-financed. However, in spite of a liberalised financial account, its foreign assets are only 0.6% of GDP, because residents lack information on foreign investment opportunities.

Uganda’s total foreign liabilities grew strongly by 16.7% in 2001, to US$1.1 billion or 20.9% of GDP (see Table 1). Most of this growth came from higher market value of existing FDI, but new inflows also made up 1.5% of GDP.

Private sector external debt stayed relatively small, at around 7.5% of GDP, due to debt repayments during a profitable year that saw the real economy growing by almost 6%. It was long-term, and comprised mostly related borrowing between subsidiaries and their parent companies, and also some trade credits. However, the Uganda Working Group urged the private sector to improve the reporting of short-term debts as, compared with bank records, this was significantly under-reported.

COMPOSITION OF INVESTMENT
• The continuing privatisation of telecommunications, and profitable sectors such as wholesale and retail, finance, and transportation attracted most of the new FDI.
• Investment came mainly from Ethiopia, the USA and Canada. While the UK remains the largest investor, the diversification of source countries is underlined by Africa (with Kenya, Mauritius and Ethiopia at the forefront) increasing its share from one-fifth to one-quarter. Of concern, however, are large investments from tax havens such as Bermuda (possibly due to round-tripping by Ugandan residents) and small investments from Tanzania (in spite of East African Community efforts to promote sub-regional investment).
• The central region has historically received most (91.7%) of the total stock of investments, with the Eastern region (at 8%) and the Western region (at less than 1%) appearing under-invested.
• While investor perception findings indicate that the general domestic environment in 2003 was conducive to investment, a number of constraints were identified, namely high production costs, low market demand, smuggling and corruption, power fluctuation and the high cost of domestic borrowing.
• Furthermore, the respondents showed their confidence in Uganda's economy by indicating that over 70% of existing investors want to expand turnover and profits over the medium term.

RETURN ON INVESTMENTS
As in other low-income countries, the return demanded on equity investments was higher (at 10.6%) than costs on debt (ranging between 7% and 9%). Sectoral choices in financing between equity and debt thus have to weigh long-term equity maturities with higher costs; against debt from 3 possible sources – domestic (with high interest rates and lack of availability), related intercompany external borrowing (with high flexibility on repayment dates and low costs) and unrelated external borrowing (more fixed repayment dates, high costs and exchange rate fluctuations). Contrary to Zambia’s sectoral debt exposure (see Issue 19), only agriculture had more debt than equity in Uganda. The manufacturing sector had a balanced debt-to-equity structure.

IMPLICATIONS
• Uganda’s private financing appears relatively stable, but better short-term debt data may significantly increase private sector debt.
• The Investment Authority should focus more on attracting more capital from non-traditional source investment countries, especially Africa, and work with the East African Community to promote investment from Tanzania.
• The authorities should foster more regionally balanced development for national poverty reduction in non-central regions.
• Government should investigate how investment can be diversified into wholesale, retail, catering and accommodation, financing, insurance and real estate.
• Future surveys should investigate private sector debt further by sector. Agriculture appeared vulnerable to high debt exposure, due to losses in many companies.
• Attention should be given to the investor perception constraints that have been identified – namely on infrastructure, finance, and smuggling.
• The authorities should provide more information on instruments to Ugandan residents who wish to invest abroad.

Table 1 - Uganda’s Private Sector External Liabilities & Assets, 2000-2001 (in US$ m)

<table>
<thead>
<tr>
<th></th>
<th>End-2000</th>
<th>Net Transactions</th>
<th>End-2001</th>
<th>Income</th>
<th>Implied Costs / Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Foreign Liabilities</td>
<td>944.3</td>
<td>79.7</td>
<td>1,101.6</td>
<td>-87.9</td>
<td>8.6%</td>
</tr>
<tr>
<td>of which: long-term</td>
<td>906.9</td>
<td>64.1</td>
<td>1,060.4</td>
<td>-85.8</td>
<td>8.7%</td>
</tr>
<tr>
<td>Direct Investment</td>
<td>807.0</td>
<td>72.9</td>
<td>962.3</td>
<td>-77.6</td>
<td>8.8%</td>
</tr>
<tr>
<td>Equity Capital at Market Values</td>
<td>539.9</td>
<td>78.5</td>
<td>700.3</td>
<td>-65.9</td>
<td>10.6%</td>
</tr>
<tr>
<td>Intercompany Borrowing</td>
<td>267.1</td>
<td>-5.6</td>
<td>262.0</td>
<td>-11.7</td>
<td>4.4%</td>
</tr>
<tr>
<td>Portfolio Investment</td>
<td>6.5</td>
<td>0.0</td>
<td>7.3</td>
<td>-0.8</td>
<td>11.6%</td>
</tr>
<tr>
<td>Other Investment</td>
<td>130.8</td>
<td>6.8</td>
<td>132.0</td>
<td>-9.5</td>
<td>7.2%</td>
</tr>
<tr>
<td>Loans</td>
<td>6.6</td>
<td>9.1</td>
<td>16.7</td>
<td>-1.0</td>
<td>8.6%</td>
</tr>
<tr>
<td>Trade Credits</td>
<td>124.2</td>
<td>-2.3</td>
<td>118.3</td>
<td>-8.5</td>
<td>7.1%</td>
</tr>
<tr>
<td>Total Foreign Assets</td>
<td>35.3</td>
<td>-2.7</td>
<td>32.9</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>of which: short-term</td>
<td>33.7</td>
<td>-3.3</td>
<td>30.6</td>
<td>0.1</td>
<td>0.3%</td>
</tr>
<tr>
<td>As a % of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Foreign Liabilities</td>
<td>18.1%</td>
<td>1.5%</td>
<td>20.9%</td>
<td>-1.7%</td>
<td>N/A</td>
</tr>
<tr>
<td>Total FDI</td>
<td>15.4%</td>
<td>1.4%</td>
<td>18.3%</td>
<td>-1.5%</td>
<td>N/A</td>
</tr>
<tr>
<td>Total FSED</td>
<td>7.6%</td>
<td>0.0%</td>
<td>7.5%</td>
<td>-0.4%</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Foreign Assets</td>
<td>0.7%</td>
<td>-0.1%</td>
<td>0.6%</td>
<td>0.0%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Uganda FDI 2000/1 Survey
HOW DO COUNTRIES BUILD SAMPLE FAL ENTERPRISES?

Newsletter 19 described methods to build an investor register. Once countries have achieved a reasonably reliable register (after one or two benchmark surveys), they should not continue to survey every enterprise on the register annually – but move to a representative sample. This article explains the FPC CBP sampling methodology, which incorporates international best practice.

**STEP 1: DEFINING THE SIZE OF THE SAMPLE**

Most countries in the CBP have a register of between 500 and 2,000 enterprises. The size of sample chosen from this register should depend on the characteristics they wish to focus on. Statistics textbooks state that a sample is likely to be representative (have a ‘normal distribution’) if the sample size is large enough – i.e. at least 20 to 30 observations to represent each category used to define the sample. This would make it possible to assume that sample results represent the characteristics of the investor register (which, if well maintained, will itself be a good proxy for the whole investor population). But in practice this is not much use as a rule, because it is not possible to know before detailed examination what size of sample will have these characteristics.

In addition to ensuring a ‘normal distribution’, countries need to take account of other factors such as availability of staff time for fieldwork, desired timeliness of data, and possible efficiency gains. For example, if a comprehensive annual survey of a register of 1,200 enterprises took 20 staff twelve weeks, this implies 1 staff day per enterprise (assuming fieldwork is not combined with post and e-mail). If the normal staff complement is only 10, the country needs to halve the number of enterprises surveyed. If it wishes to move to semi-annual surveys and the maximum amount of time fieldwork can take in order to meet semi-annual deadlines is four weeks, it needs to divide the number of enterprises by three. It therefore has only one sixth (16.6%) of the previous year’s staff time available, and it would be imprudent to have a sample larger than 400 companies or 33.3% of the register (allowing for efficiency gains). These factors tend to mean that countries with larger registers sample a smaller percentage of the total.

Countries also want to maximise the coverage of BoP data by focusing on the largest companies. As a result, in the example above, it would be best to start by setting a threshold, using FDI flows or stocks or a combination of the two, which will cover the 400 (33.3%) largest companies.

**STEP 2: ENSURING A ROBUST SAMPLE WITH ONE FILTER**

The next step is to examine the group of largest companies to see whether they are statistically robust. Table 1 shows the process of choosing a sample, for a country that has decided that size of FAL is most vital, but wants to be statistically robust and reasonably sectorally representative.

Column 2 shows the numbers of companies in each sector in the investor register of, for example, size 1,000. Column 3 shows the breakdown of the top 200 companies by sector. It is obvious that this will not give robust results for agriculture, commerce or mining, because they have fewer than 30 observations. How to make the sample more robust? What must be done is to include at least 30 agriculture, mining and commerce companies in the sample. But, as there are only 20 mining companies, you have just to include all mining companies. You are now left with 120 companies to choose, as 80 have been used up on the three small sectors. To allocate these by sector, you could calculate the proportion each remaining sector represents of the three remaining sectors’ total in the Top 200, and then multiply it by the number of companies left to allocate. However, while this allows you to have a statistically robust sample, it still sacrifices representation of the sectoral breakdown within the top 200, because manufacturing, services and tourism get a lower share. As a result, the preferred method is Sample 1a, where all the companies in the top 200 are retained, but companies are added to make the three small sectors more robust, making the total sample 250.

**STEP 3: A ROBUST SAMPLE WITH MULTIPLE FILTERS**

The above can be complicated by adding more ‘filters’. In other words, the country may decide it wants to be robust in analysing the region receiving the investment, the source country of the investment, or the type of financing being used by a company (e.g. equity or debt). As discussed in Newsletter 19, the number and type of filters would vary by country, depending on their availability and quality. The principles would be the same, but further calculations would need to be made to ensure that the sample would be robust for the other characteristics, by having 30 or the maximum available companies for each region, source country or type of financing, and by increasing the sample size to ensure this.

The above approach also has the advantage of trying to ensure a sufficient number of companies in each classification to avoid potential breaches of confidentiality, due to obtaining only a few companies’ data.

Sampling must also account for revisions to the register, factoring in new enterprises, or removing non-existent ones. Countries may also wish to include in the sample companies where they have doubts about the quality of data provided in the comprehensive survey and wish to ensure that data provided to the sample are of higher quality.

Once data have been collected, uprating (boosting) is required for non-response (to represent the total sample of 250); and for sampling (to represent the total of 1,000 enterprises on the register). How to do this will be explained in Newsletter 21.
DEBT RELIEF
TECHNICAL QUESTIONS

HOW DO YOU CHECK THE PV OF VALUE OF YOUR DEBT FIGURES IN YOUR DEBT-PRO® DATABASE?

Having prepared a Debt-Pro® database, it is important to check the debt stock and PV of debt numbers, by creditor category and on a creditor by creditor basis for the base year, with either the output of your national database or the data tables contained in your HIPC preliminary, decision or completion point document. The latter is important if you are planning to replicate the BWI’s HIPC analysis at the decision or completion point.

To check your Debt-Pro® database, you need to create a scenario (which can be blank, that is with no debt reorganisation or new borrowing assumptions) and import your database. Having imported your database, proceed directly to Reports and run the Summary Report, without calculating. If you run a report in Debt-Pro® without calculating, the figures in the report reflect the status of your existing debt as recorded in the Debt-Pro® database. You can use the Summary Report to check the nominal debt stock and PV of debt figures by creditor category and for your key creditors.

To check the nominal and/or PV of debt on a creditor by creditor basis, run the Details Report in Debt-Pro® and check the figures for the base year with the numbers that appear in your HIPC documents. The figures to be checked are only those in the base year, so ignore all the projected data.

If there are differences in the data, these can arise for the following reasons:
- for the PV of debt, the CIRR and exchange rates entered in the Reference Sheet are different from those in your HIPC document;
- not all loans have been entered in one of the databases;
- projections of principal and interest payments are different between the two databases. This can arise if recent disbursements have not been included;
- incorrectly coding a creditor as bilateral, instead of commercial for example, can cause differences in data by creditor category;
- incorrectly coding a debtor as other than government (GV) can lead to differences by debtor.

(HIPC Initiative Additionally for Bolivia cont.)

make a more appropriate analysis of the additionality, taking into account the size of the Bolivian economy, the concessional assistance is viewed in terms of GDP in table 2.

Table 2 shows that there was no HIPC additionality in terms of GDP: The average annual concessional assistance in the pre-HIPC period reached 8.4% of the GDP, whereas in the HIPC period it only amounted to 6.8% of GDP. This fact would mean that the average annual concessional assistance in the HIPC period fell by approximately 1.6% of GDP in comparison with the pre-HIPC period.

CONCLUSION

In view of the above, it can be concluded that Bolivia received less concessional assistance in the HIPC period (including HIPC relief) than in the pre-HIPC period in terms of the percentage of GDP. This situation generated additional pressures on the fiscal sector, which, given its serious weakness and the commitment to meet the costs of reducing poverty, was forced to resort to internal indebtedness and also to cutbacks in other costs that were also necessary. This situation also contributed to a delay in the efforts to reduce poverty because, for example, it was necessary to deal with problems of counterpart financing in order to implement projects and mobilise public investment. The concessional flows should be increased over the next few years, and thus effectively support poverty reduction activities.

(The Quality of Donor Funding - HIPC Views cont.)

also very cumbersome (see Chart 2). The lack of coordination applies to all financing sources. For bilateral creditors, procurement issues, especially tying of resources to purchases from donor/creditor countries, and disbursement methods are problematic, while for multilateral creditors, delays arising from disbursement procedures and conditions precedent are an issue.

The results of the CBP methodology to date are complementary to those of OECD’s DAC’s Needs Assessment Survey, included in its report on Harmonising Donors Practices for Effective Aid Delivery, which notes that factors ranked most burdensome to effective aid delivery are donor driven priorities and systems, difficulties with donor procedures and uncoordinated donor practices. It also reinforces the findings of Special Programme of Assistance efforts at donor harmonisation. However, they provide much more detailed analysis of where precisely the international community is falling short in its undertakings to improve not just the quantity but also the quality of aid.

A number of HIPCs have already embarked on steps to improve the delivery of aid flows, most notably Uganda, with its PEAP principles for partnership, Tanzania’s Independent Monitoring Group and Zambia’s MoU on Co-ordination and Harmonisation. Several others have achieved important steps forward in coordinating donor budget support through multi-creditor agreements. However, the CBP system provides a much more comprehensive and objective system for monitoring progress. Countries are therefore putting this together with analysis of their own failings in government policies and procedures to design ‘partnership matrices’ for assuring more rapid and high quality absorption of aid to fund the MDGs.