

HIPC MINISTERS MEET IN LONDON: RECOMMENDATIONS ON IMPLEMENTING HIPC II AND FUTURE CAPACITY-BUILDING

The fourth meeting of HIPC Finance Ministers took place on 5 June 2001 in London, and was jointly organised by DRI and UK DFID. The number of HIPCs represented rose to 25, 16 at Ministerial level, with a further 6 transmitting formal apologies for their absence. Ministers agreed a "London Declaration" which was transmitted to remaining HIPCs, the IMF and World Bank, the UN and other international organisations, and to G7 and like-minded donor Ministers.



Ministers reiterated their congratulations to the international community and the Bretton Woods Institutions on the Enhanced HIPC Initiative, and on efforts to enhance capacity in HIPC countries. They stressed once more their own commitment to designing and implementing sustainable poverty reduction strategies, and to doing everything in their power to spend debt relief proceeds productively and transparently on poverty reduction. Nevertheless, they raised important common problems which require urgent solutions if HIPC II is to achieve the desired long-term reduction in poverty:

1. Implementing HIPC II

Ministers urged the international financial community to:

- accelerate efforts for the remaining HIPCs to reach decision points, by minimising conditionality and being flexible in interpreting track records, in line with the rapid progress demonstrated in 2000;
- reintegrate post-conflict countries more rapidly and comprehensively into the HIPC process, by demonstrating maximum flexibility in conditionality and sharply reducing the first phase of the Initiative before decision point, clearing arrears rapidly, and dramatically increasing aid disbursements and capacity-building assistance to speed reconstruction;
- ensure that countries which have passed decision points are able to reach their completion points rapidly, by interpreting with maximum flexibility compliance with existing conditions and

streamlining conditionality in existing and new PRGF programmes;

- front-load debt service relief even more on a case-by-case basis where necessary to overcome the major "humps" of debt service which continue to cause high debt service/revenue ratios in a significant number of HIPCs for 2001-2004, or to increase the reduction in debt service after decision point, to offset rescheduling of arrears;
- accelerate the implementation of agreements on interim relief (by all creditors, but especially multilateral and Paris Club) in order to ensure that fiscal relief is provided almost immediately after decision point in line with popular expectations created by HIPC II;
- conduct comprehensive assessments of the debt sustainability of all HIPCs when they reach the completion point, and provide more debt relief to compensate any degree of renewed unsustainability (whether this is perceived as temporary or permanent, significant or minor);
- take much more account of shocks which hit economies, in two ways:
 1. introduce a range of new measures to combat them (advance contingency and rapid compensatory financing which is affordable by HIPCs within their borrowing limits in PRGF programmes; accelerating the recommendations of the World Bank Task Force on Commodity Risk Management; reinforcing insurance mechanisms such as those of the Commonwealth Disaster Management Agency; and providing more predictability and stability in donor aid flows) rather than inadequate and delayed additional disbursements of donor grants or multilateral loans.
 2. take account of shocks in interpreting more flexibly compliance with conditionality;
- examine domestic and private sector debt burdens in all future debt sustainability analyses (not just in PRGF documents), especially in the reassessment of sustainability at the completion point, in order to have a picture of total national debt sustainability – without implying that HIPC funds should be spent on relieving such debts;
- give more priority to solving domestic debt problems, which are severely damaging the

private sector, growth prospects and therefore the sustainability of external debt.

2. Financing HIPC Debt Relief

Ministers urged all creditors to accelerate and increase their contributions to HIPC by:

- frontloading relief more comprehensively (notably in the Paris Club and by multilateral creditors) both before and after completion points;
- (for all bilateral creditors) adopting a policy of holding debt service payments in trust for countries which are yet to reach decision points, cancelling 100% of all bilateral debt service from decision point and cancelling 100% of stock at completion point;
- moving the cut-off date and cancelling post cut-off date debt for countries where necessary to reach debt sustainability;
- including all pre cut-off date debt (including short-term and "special" debts) in the debt eligible for relief;
- maximising the additionality of all debt relief by reducing diversion of bilateral aid and using more of multilateral organisations' own resources;
- making more rapid progress on debt relief from non-Paris Club governments by convening an international conference of such creditors, and by creating a special window or fund for clearing HIPC debts to other HIPC or IDA-only countries through buybacks, funded by resources from within the multilateral system;
- accelerating efforts to achieve adequate debt relief from smaller multilateral creditors, where necessary using financing from the HIPC Trust Fund to supplement inadequate resources of the institutions themselves;
- providing capacity-building support to multilateral creditors to ensure they are calculating and interpreting HIPC relief methodologies correctly;
- providing legal and political support to HIPCs in resisting lawsuits by commercial creditors that have not participated in commercial debt reduction operations.

3. New Financing Needs

Ministers stressed that reaching the International Development Targets will require a much greater effort by the international community to finance poverty reduction. This needs to happen in eight ways, by:

- calculating the financing needs for each individual HIPC country to reach the international development targets, aggregating them in a systematic and comprehensive manner, and presenting such analysis to the Annual Meetings of the IMF and World Bank in 2001;
- limiting non-concessional borrowing where this is

necessary to maintain long-term debt sustainability;

- a major increase in grant aid, to reach the UN targets of 0.7% of GNP as soon as possible;
- providing new finance in ways which support poverty reduction strategies, through
 1. untying all aid from the exports of the supplying country
 2. moving from project support to budget support
 3. establishing common disbursement, procurement, accounting, auditing procedures
 4. maximising the value for money of imports supplied and accelerating efforts to eliminate corruption
 5. providing aid only for productive purposes rather than white elephants or arms
 6. making longer-term commitments of aid flows;
- Ministers also recognised the need to reduce aid dependency through an accelerated effort to mobilise their own national resources for poverty reduction. They asked the international community to assist by:
 1. continuing to strengthen HIPC countries' efforts to increase budget revenue, while remaining realistic about the limited and gradual prospects for increases;
 2. encouraging non-debt private sector flows (especially FDI) to HIPC countries as a top priority in order to maximise growth and long-term debt sustainability;
 3. exhorting all OECD countries to provide free market access for the least developed countries and HIPCs, as well as removing agricultural subsidies and other structural barriers which impede market access even in the absence of tariffs;
 4. procuring wherever possible goods financed by aid (notably food aid) from HIPCs themselves.

4. Poverty Reduction Strategies

Ministers welcomed the increased interest in poverty reduction issues generated by the Enhanced HIPC Initiative, discussed the far-reaching processes underway to design, implement and revise PRSPs, and reaffirmed HIPC countries' strong leadership in poverty reduction. They reaffirmed their commitment to accelerated and pro-poor growth policies, through higher investment and employment. To support these efforts, they urged the international community to:

- recognise that poverty reduction is much more complex than has been foreseen and it is vital to continue to develop expertise in HIPC country administrations to lead on these issues;
- acknowledge that the PRSP process has been a learning exercise for everyone, including the development partners. This learning process has to accelerate to fulfil the high popular expectations of reducing severe poverty in most countries;
- continue to maximise the provision of early debt relief to improve government credibility in funding rapid poverty reduction and fulfil civil society expectations;
- learn and transmit maximum lessons from implementation experience and new international

knowledge (from the widest possible range of sources) in order to improve PRSPs regularly;

- shift the focus of attention from the extensive effort to diagnose poverty and "count the poor" to analysis of the causes of poverty and its links to macroeconomic policies;
- speed up the process of designing an analytical framework on how to link macroeconomic policies and poverty reduction, which should then be extensively and publicly discussed by HIPCs and eventually adopted as a common analytical tool to adapt to country needs;
- avoid continuing delay in Completion Points by streamlining and facilitating the PRSP consultation process to focus on the key issues;
- support HIPCs in their efforts to lead donor co-ordination, by encouraging all major donors to focus their support on programme aid for poverty reduction;
- focus on accelerating growth, investment and employment, for which foreign direct investment is a key component;
- design growth policies in such a way as to provide both accelerated and pro-poor growth, recognising and overcoming any potential trade-offs in order to maximise poverty reduction;
- increase efforts to sequence poverty reduction actions and enhance complementarity of their implementation (e.g. between primary and secondary education, or health and education);
- analyse the effects of HIV/AIDS and malaria on economic growth more clearly and include where necessary in all PRSPs explicit measures to combat them;
- streamline aid commitment, disbursement and procurement processes, in particular reduce disparities among donors procedures, to ensure that aid supports poverty reduction;
- provide greater capacity-building resources on poverty reduction for HIPC administrations and civil societies, to ensure leadership of the poverty reduction process.

5. Capacity Building Requirements

Before the meeting, the Ministers received a detailed questionnaire about their priority capacity building requirements. The responses to the questionnaire and their interventions in the meeting indicated that their top priorities for capacity building are:

- On **institutions**, the priority is to reinforce personnel numbers and equipment. The HIPC CBP needs to continue its endeavours to improve institutional capacities and to generate political awareness and will to build capacity among HIPC policymakers. This objective could be attained by an increase in CBP follow-up missions and institutional support in order to overcome institutional barriers to debt management.
- As far as **operational management of development finance** is concerned, Ministers stressed the importance of computerised debt management. In spite of substantial recent efforts, and though some countries have debt management software, much more effort is needed in this area, and the institutions

responsible for data management software should be requested to accelerate genuine capacity building and its regional decentralisation.

- On **debt renegotiation**, Ministers in particular recognised the requirement for practical training in Paris Club negotiations, as well as in restructuring domestic debt. They commented that the HIPC-CBP's workshops on debt negotiation have shown that one can dramatically increase capacities, if training uses the countries' own data and documents to simulate negotiations adapted to the situation of each country.
- On **new financing policy**, Ministers unanimously stressed the need for practical training in negotiating new official bilateral and multilateral flows – not only their concessionality and quantity but especially their quality. HIPC capacities have increased somewhat in this area but this will remain crucial to consolidate long-term debt sustainability.
- In **macroeconomic forecasting**, the main requirement is the development or refinement of country-specific multi-sectoral long term forecasting models. HIPCs also need to continue exchanging information on best practices in forecasting sectors (external, public finance, monetary and financial, real and poverty reduction). Ministers therefore appealed to all institutions working in these areas (including DRI), to increase their endeavours to improve the capacities of the HIPCs in terms of forecasting economic development and poverty reduction, through detailed work in their countries.
- Ministers underlined the great importance of building capacity to produce and implement **poverty reduction programmes**, particularly with respect to the following aspects:
 1. The poverty impact of macroeconomic and structural policies;
 2. Budgeting, costing and evaluation of poverty reduction programmes;
 3. Monitoring and implementing programmes;
 4. Mobilising external and domestic resources for the programmes.

They urged all concerned institutions to accelerate their efforts at international, regional and national levels to build HIPC capacities in these areas.

- Finally, as concerns computerised analysis of financial sustainability, Ministers assigned top priority to training in tools that analyse financial sustainability and, using such tools, to the production and implementation of financial development strategies.

In conclusion, Ministers emphasised the importance of continuing to organise exchanges of experience among HIPC countries at both technical and political levels, the latter through the continued organisation of HIPC Ministerial Meetings. Ministers urged continued rapid decentralisation by all international institutions to regional partners such as the BEAC/BCEAO Pôle-Dette, CEMLA, MEFMI and WAIFEM. In addition, the African countries whose official language is Portuguese (PALOPs) urged the creation of an informal network and continued training events specifically for themselves, to accelerate the transfer and exchange of knowledge.

CBP REGIONAL PARTNER INSTITUTIONS: MEFMI



In order to assure an effective transfer of capacity to the HIPCs themselves, one of the underlying principles of the CBP has been to transfer responsibility for the execution of its programmes to regional institutions owned by HIPC governments themselves. This is the first of a series of articles that will be contributed by our regional describing their wider programmes and the work we have been doing with them.

The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) is owned by its 10 regional member countries: Angola, Botswana, Lesotho, Malawi, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. It began life as the Eastern and Southern Africa Initiative in Debt and Reserves Management (ESAIDARM) in 1994 and became MEFMI in 1997.

MEFMI was founded to:

- Build sustainable human and institutional capacity in critical areas of macroeconomic and financial management, assisting central banks, and ministries of finance and planning or their equivalent;
- Foster the use and development of best practices;
- Bring emerging risks and opportunities to the attention of executive level officials.

The ultimate expected outcomes are sound and efficient financial sectors, stable macroeconomies and strong, sustained growth.

MEFMI delivers its capacity building through programmes in Macroeconomic Management, Financial Sector Management and Debt Management. These provide regional and in-country courses, seminars and workshops, with a hands-on practical bias; and country missions fulfilling specific capacity building needs with on-site problem solving, needs assessment, data gathering, impact assessment and/or awareness raising.

MEFMI also has a Fellows Development Programme to provide opportunities for promising young professionals to develop into credible experts in macroeconomic and financial management. Candidates go through a comprehensive and rigorous

programme before being accredited as fully-fledged MEFMI Fellows. This includes training courses and attachments in specialized areas, submission of a technical paper and participation as resource persons in MEFMI workshops and missions. Qualified Fellows are available to the whole region as experts in their areas of specialization. The success of this programme has eliminated dependence on external support in areas where fellows have mastered the skills, minimizing costs and providing incentive for these experts to remain in the region where they are in high demand.

Other activities include the annual Executive Forum Series for Finance Ministers, Finance/Treasury Secretaries, Secretaries of Planning and Governors of Central Banks to discuss new challenges and strategies for effective responses. MEFMI also conducts studies, develops instruments and provides Institutional Review Services for its clients.

MEFMI's capacity building in debt management aims mainly to strengthen the ability of member states to manage and monitor public debt. To date, countries have been empowered by the programme to cope with the following:

- Loan interpretation and recording
- Data validation and portfolio reviews
- Debt sustainability analysis and formulation of national debt strategies
- Installation and support of debt management software
- Awareness of the need for team work including an appreciation of the role of the lawyer in debt negotiations

MEFMI / DRI Collaboration in the HIPC CBP

MEFMI and DRI (and their predecessors) have been working together on debt strategy formulation since 1994, before the HIPC Initiative or debt sustainability analysis were invented. Our cooperation is guided by a memorandum of understanding between the two institutions which provides a framework for assisting MEFMI HIPCs in debt sustainability analysis and strategy formulation through the HIPC Capacity Building Programme. The two institutions deliver coordinated and complimentary debt strategy formulation and implementation activities to avoid duplication of effort. The cooperation has provided an avenue for

exchange and sharing of experience, knowledge and skills between the two organizations thus strengthening DSA and Debt Strategy formulation expertise in the MEFMI region.

The areas of cooperation include the following:

- Joint country workshops and missions on debt sustainability analysis, strategy formulation and implementation planning, as well as follow-up activities to review and facilitate implementation progress;
- Joint development of HIPC DSA training materials;
- MEFMI Fellows and Staff Attachment and training for acquisition of skills in debt strategy formulation, debt sustainability analysis and DSA analytical software.

Since 1997, the two institutions have conducted 12 joint activities in the MEFMI HIPCs. The achievements can be summarized as follows:

- creation of government teams of officials to conduct national DSAs with little or no external assistance;
- development of promising and potentially sustainable capacity to conduct DSAs among MEFMI HIPCs through a pool of regional experts and trainers;
- enhanced capacity in macroeconomic forecasting through training and information;
- production and implementation of national debt strategies in four of MEFMI's five HIPC member states (Angola will produce such a strategy later this year);
- enhanced negotiation skills and better understanding of the HIPC debt relief process, allowing some countries to access faster or deeper debt relief;
- improved coordination of debt management activities as HIPCs establish national teams to improve databases, debt analysis, macro forecasting and poverty reduction programming in preparation for negotiations;
- enhanced political commitment to sound debt management through sensitization seminars for senior government officials.

Future Support for HIPCs

Most HIPCs should have acquired sufficient skills for debt sustainability analysis, and strategy formulation and implementation by the time they get to completion point, as

they will have received a lot of training and retraining. However, given the dynamic nature of financial management and the effects of globalization, they will have to continue strengthening their capacity to face new challenges. These include:

- Building capacity for proactive development financing strategies, by deeper understanding of the policies and procedures of donors and other financiers;
- Strengthening debt strategies to avoid relapses into unsustainable debt positions;
- Revamping outdated legal structures to attain best practices in debt management;
- Building capacity to prepare and analyse poverty reduction strategies with participation by the poor. Current strategies are on a steep learning curve, and will need major reinforcement in analysing the impact of macroeconomic policies and monitoring of targets if they are to move towards poverty eradication;
- debt sustainability analysis and debt negotiation strategies are only part of the solution to the debt problems facing HIPC. Authorities need to acquire hardware and software for improved data base management and for analytical purposes;
- Developing capacity to manage domestic public debt as some HIPC have large domestic debts whose service consumes a high proportion of government revenue;
- Training to create a larger pool of regional experts – Fellows and others – to ensure sustainability of this expertise and fulfil great demand by member states.

DRI-MEFMI TRAINING FOR TRAINERS

The joint DRI and MEFMI Training for Trainers (TfT) Workshop, held in Lilongwe in June 2001, was a major step forward in the process of transferring the CBP to regional organisations such as BEAC, CEMLA, MEFMI and WAIFEM. This workshop was the first of its kind and MEFMI regional experts trained their regional colleagues in the skills required to train other national debt strategy analysts and to conduct national debt strategy workshops. The TfT Workshop was preceded by a programme of attachments of nine MEFMI regional experts (Charles Abuka, Abbas Berya, Ben Botolo, Cornilious Deredza, Lazarus Kamanga, Mosito Khetisa, Patrick Malambo, Simon Namagoa and Johnson Nyella) to DRI to strengthen their technical skills for debt sustainability and poverty reduction analysis as well as learning about the key features of running technical tasks and plenary sessions of national strategy workshops. In addition, the MEFMI regional experts prepared additional material to make the existing DSA Manuals even more user-friendly and a Training for Trainers Guide which can be used by national officials to conduct in-country training.

The TfT Trainers for the workshop were:

- Debt Data: Mosito Khetisa (Lesotho), Paddy Turyamwijuka (Uganda);
- External Debt Strategy: Abbas Berya

(Tanzania), Steve Mbewe (Zambia), Anna Msutze (MEFMI);

- Domestic Debt Strategy: Lazarus Kamanga (Zambia);
- Macro Analysts: Charles Abuka (Uganda), Cornilious Deredza (MEFMI), Johnson Nyella (Tanzania);
- Poverty Reduction Analysts: Ben Botolo (Malawi), Simon Namagoa (MEFMI).

The Trainers were supported by four international resource people, including Aysel Basci of IDM who provided comprehensive training in the Debt-Pro software for all participants.

During the workshop, the TfT Trainers were responsible for running each of their groups through the Technical Tasks as well as taking responsibility for conducting the Plenary Sessions. The TfT Trainers learned about all aspects of running a successful workshop including all the behind the scene issues relating to co-ordination and planning. In particular, they learned how to ensure:

- all the Technical Tasks are completed on time,
- participants are ready to make Plenary presentations,
- equipment (OHPs, microphones, printers, flip charts) is ready and working when needed,
- most importantly, problems are dealt with by trouble shooting as they arise.

The feedback from the TfT Trainers and participants has been an important input into improving the DSA Manuals and other DSA workshop training documents and materials. The new DSA manuals were tested at the TfT Workshop and as a result of feedback and have been further revised and expanded by DRI. This latest version of the DSA Manual was used at the Sierra Leone and Malawi National Debt Strategy Workshops in August 2001 and will be posted on the private DRI website in the fourth quarter of 2001.



HIPC INITIATIVE COUNTRY PROGRESS AND PRSP STATUS (AUGUST 2001)

Country

Countries which had already reached decision/completion points under HIPC I

	HIPC I		HIPC II	
	Decision	Completion	Decision	Completion
Benin	7/97	ineligible	7/00	4Q2001
Bolivia	9/97	9/98	2/00	6/01
Burkina Faso	9/97	7/00	7/00	4Q2001
Cote d'Ivoire	3/98	...	2002	...
Guyana	12/97	5/99	11/00	2002
Mali	9/98	9/00	9/00	4Q2001
Mozambique	4/98	6/99	4/00	9/01
Senegal	7/97	ineligible	6/00	4Q2001
Uganda	4/97	4/98	2/00	5/00

Countries which have reached or are expecting to reach decision points under HIPC II

	Preliminary HIPC Documents	HIPC II	
		Decision	Completion
Angola	no current timetable		
Burundi	2002
Cameroon	5/00	10/00	1Q2003
Central African Rep.	2002
Chad	6/00	5/01	end-2002
Comoros Islands	no current timetable		
Congo Dem. Rep. of	no current timetable		
Congo Rep. of	2002
Ethiopia	02/01	4Q2001	...
Gambia	10/00	12/00	4Q2002
Ghana	07/01	4Q2001	...
Guinea	12/99	12/00	4Q2002
Guinea Bissau	3/98	12/00	4Q2003
Honduras	11/99	7/00	4Q2002
Kenya	no current timetable		
Lao, PDR	no current timetable		
Liberia	no current timetable		
Madagascar	10/00	12/00	4Q2002
Malawi	7/00	12/00	4Q2002
Mauritania	2/99	2/00	mid-2002
Myanmar	no current timetable		
Nicaragua	8/99	12/00	mid-2003
Niger	11/00	12/00	4Q2002
Nigeria	no current timetable		
Rwanda	07/00	12/00	4Q2002
São Tomé & Príncipe	11/00	12/00	4Q2003
Sierra Leone	9/01	4Q2001	...
Somalia	no current timetable		
Sudan	no current timetable		
Tanzania	8/99	4/00	10/01
Togo	2002
Vietnam	no current timetable		
Yemen	...	6/00	ineligible
Zambia	7/00	12/00	4Q2003

Source: DRI, IMF &
World Bank Documents

HIPC Initiative Progress

Issues	Updated PRSP Status/Timetable
negotiating interim relief, problems with non-Paris Club comparability, cotton exports shock	preparing full PRSP for 4Q2001
second country to reach completion point under HIPC II, after Uganda	full PRSP presented to BWIs in June 2001
steady progress to CP, awaiting PRSP progress report, cotton exports shock	full PRSP annual review in course
political instability delayed HIPC II DP, PRGF to be negotiated last quarter of 2001	preparing I-PRSP for 4Q2001
approaching HIPC II CP, not benefiting from Paris Club interim relief	preparing full PRSP for 4Q2001
progressing to HIPC II CP, problems with non Paris Club comparability, cotton export and drought shocks	preparing full PRSP for 4Q2001
HIPC II CP due shortly, received moratorium on Paris Club service, climate shocks hitting economy	full PRSP expected in 3Q2001
receiving partial interim relief pending finalisation of bilateral agreements	preparing full PRSP for end-2001
continued difficulties with non Paris Club comparability, coffee exports shock	implementing full PRSP, published in March 2000
preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP for 3Q2001
IMF Staff-monitored programme for June-December 2001, PRGF/DP possible thereafter	preparing I-PRSP for 4Q2001
completing Paris Club bilaterals, PRGF review approved in July	preparing full PRSP for 1Q2002
political instability will delay the preparation of PRSP and DP	preparing full PRSP for 4Q2001
Decision Point reached in May 2001	preparing full PRSP for 4Q2001
recent DSA says Comoros should be eligible, IMF Staff-monitored programme to June 2002	no timetable yet for PRSP
staff-monitored programme agreed with IMF in July, PRGF and DP possible thereafter	no PRSP process
PRGF postponed, DP will depend on improved performance	preparing I-PRSP for 4Q 2001
DP possible later in 2001, depending on progress in a few areas	preparing full PRSP for 2002
Paris Club interim relief agreed in principle	preparing full PRSP for 4Q2001
new government decided on HIPC, preparing for DP in December 2001	preparing full PRSP for 4Q2001
Paris Club negotiations completed, problems with non Paris Club comparability	preparing full PRSP for 4Q2001
negotiating interim relief with multilaterals/non-PC, implementing CP triggers	preparing full PRSP for 1Q2002
finalising negotiations on interim relief; PRGF review due September 2001	full PRSP to be presented to BWIs in 3Q2001
preliminary DSA shows ratios under HIPC thresholds, rescheduled arrears at Paris Club	preparing full PRSP for 4Q2001
government reviewing options for debt relief	I-PRSP published in March 2001
no current IMF programme	no PRSP process
Paris Club negotiations completed	preparing full PRSP for 2Q2002
drought hits economy, negotiating Paris Club bilaterals, problems with non-Paris Club comparability	preparing full PRSP for 1Q2001
implementing long list of triggers for the floating CP	implementing full PRSP, presented in 12/00
no IMF programme since 1981-82, no WB lending since 1987	no PRSP process
Staff-monitored programme only - delay to CP and Paris Club relief	preparing full PRSP for 4Q2001
preparing proposal for clearing domestic debt arrears, need more programme aid	preparing full PRSP for 1Q2002
dropped from HIPC list but now IDA only, Paris Club provided Houston terms	no PRSP process
received interim Paris Club relief, problems with non-Club comparability	preparing full PRSP for 4Q2001
Paris Club interim relief agreed, problems with comparable terms	preparing full PRSP for 2002
preliminary document to be presented to BWIs in 9/01	I-PRSP ready, to be presented to BWIs in 9/01
no current IMF programme	no PRSP process
no current IMF programme	no PRSP process
HIPC CP due shortly, problems with non Paris Club creditors comparable relief	implementing full PRSP, published in 10/00
IMF Staff-monitored programme for April-September 2001, PRGF/DP possible thereafter	preparing I-PRSP for 4Q2001
preliminary DSA shows ratios under HIPC thresholds	I-PRSP published in March 2001
ratios under HIPC thresholds, Paris Club agreement on Naples stock	preparing full PRSP for 4Q2001
almost all interim relief agreed, problems with non Paris Club creditors	preparing full PRSP for early/mid 2002

POVERTY REDUCTION IMPACT ANALYSIS: WORKSHOPS ON MACROECONOMIC FORECASTING AND POVERTY REDUCTION

Under the Enhanced HIPC Initiative, countries are supposed to analyse in conjunction with the Bretton Woods Institutions the impact of all macroeconomic policies contained in their Poverty Reduction Strategies on poverty reduction. At an international level, this is often known as “social impact analysis”, but the HIPCs themselves prefer to call it “poverty reduction impact analysis”. At two recent workshops in Accra and Cotonou, organised by DRI in conjunction with WAIFEM and BEAC/BCEAO Pôle-Dette, the Poverty Reduction and Macroeconomic Policy Coordinators of 24 HIPCs made major advances in defining for themselves how this analysis could be undertaken.

The two seminars built on earlier events with MEFMI in Dar es Salaam at the end of 1999 and with the Pôle-Dette in Yaoundé in December 2000. Their analysis of poverty reduction benefited from inputs by resource people supplied by DRI on how to forecast poverty reduction and how to analyse the poverty reduction impact of macro policies; from DfID on the potential for adapting macroeconomic policy to the needs of poverty reduction in the context of limited financing; from the IMF on the PRGF context for poverty reduction and macro policy; from the UNDP on measuring poverty reduction, and on programme budgeting for poverty reduction and how to improve the efficiency of poverty reduction spending; and from the World Bank on modelling poverty reduction. They also consulted the growing international literature on forecasting poverty reduction and its links with macroeconomic policies, especially papers by Chris Adam and David Bevan of Oxford University, Lucia Hanmer of DfID, and Howard White of IDS. In addition, regional experts examined how to adapt regional economic convergence criteria to the more account of the needs of poverty reduction.

In Accra, the seminar consisted mainly of presentations by international and regional resource-people and reactions from regional experts and participants. However, in Cotonou, with two weeks available instead of one, participants were able to advance rapidly in the design of tools that could be of use to HIPCs in forecasting poverty reduction for the next 15 years, and in linking the main macroeconomic sectors to poverty reduction policies.

Participants in Cotonou decided that they wanted to be in a position to forecast whether they would attain the Millennium Development Goals (MDGs), and that none of the current tools available at an international level allowed them to forecast this path. For them, the best way to forecast poverty reduction was by analysing the relationships between various indicators of poverty reduction and the international development target of reducing monetary poverty by 50% by 2015. Nevertheless, they rapidly revealed that even this indicator was highly flawed in three ways: because the basis for its calculation varied dramatically for different countries; because it was not set high enough to ensure that households had attained a standard of living considerably above the poverty line; and because it did not provide an indicator of relative poverty. Participants identified the UN indicator of the percentage of income accruing to the poorest 20% of the population as preferable here.

In order to project poverty reduction over the next 15 years, they began by defining indicators of poverty according to the three approaches used by the UN: monetary poverty; poverty of access to basic services; and poverty of inability to exploit potential. In each of these approaches, they identified crucial indicators (around 10-15) including the MDGs. They then proceeded to identify the determinants of these indicators according to their national experiences, and examined the macroeconomic factors that



influenced these determinants and indicators. Each delegation was able to build the methodology from the key determinants of poverty in its own country, rather than attempting to apply international determinants based on equations using multi-country pooled data. After the seminar, each country will continue to test its own data to identify the key determinants of poverty reduction.

The team of participants then proceeded to build the framework of a model that would allow each

country to project poverty reduction over the next 15 years. This begins by analysing historical data (using multiple living standards surveys or sub-classifications such as by region to produce sufficiently robust series) using *Excel* or *Eviews* equations, in order to establish the key indicators of poverty and their determinants, as well as their coefficients in relation to overall poverty reduction. It then uses partial elasticities to project the relationships between improvements in various indicators and determinants and the fundamental objective of poverty reduction. This allows countries to identify the progress they need to make with each determinant and indicator in order to halve poverty by 2015. Finally, it links all such determinants back to policy measures



(especially costed budget expenditure plans) in order to simulate the effects of realistically financeable policy actions on poverty reduction.

The tool is not yet completed and participants are continuing to develop it. Participants were aware that virtually no HIPC has entirely robust data that will allow it to predict with confidence whether it will reach the Millennium Development Goals, but they felt it was vital to develop such tools now so that data can be analysed as they are produced. They saw the outline of the tool as highly adapted to the needs of each country (rather than based on international multi-country results) and constructed in a very user-friendly format, and therefore designed to promote genuine capacity-building in forecasting poverty reduction and its links to the macroeconomy. They therefore committed themselves to pursuing the analysis at a country level in order to develop tools that will allow them to project their prospects of attaining the MDGs, to make sure their national commitment is supported by a clear policy path. DRI will be continuing to assist other HIPCs in developing similar ideas and practical tools at forthcoming workshops on these issues in Latin America and Eastern and Southern Africa.

above: Resting day in Ouidah, DRI/Pôle-Dette macro & poverty workshop
above right: WAIFEM/DRI macro & poverty workshop, Accra

CBP ACTIVITIES FROM JUNE TO DECEMBER 2001

The CBP has continued to enhance HIPC debt management capacity between June and August 2001, organising policy-makers meetings, numerous missions and national and regional training events.

- The **4th HIPC Ministerial Meeting** was held in London, on June 5, 2001 and was attended by Ministers and senior representatives from 25 countries (see article on page 2).
- DRI also organised the **HIPC CBP 8th Donor and Steering Committee Meetings** in London in June. The main topics discussed during these meetings were the HIPC Initiative and PRSP Processes, CBP Progress and future work, CBP transfer to HIPC Regional Institutions, and presentation by International Institutions (BWIs, UNCTAD, UNDP and Comsec) of their debt management initiatives and liaison with the CBP.
- The **Rwanda Debt Strategy Workshop** was held from 11 to 21 June in Kigali, and was attended by thirty two participants from various government agencies, plus two UNDP representatives who attended the whole workshop. Participants were trained in debt



sustainability analysis and poverty reduction programming. They produced a Debt Strategy Report which analyses the implication of the HIPC Initiative for Rwanda, the next steps to be taken in order to maximise its benefits from the Initiative, and a capacity building programme which will assist in planning the work programme for the Advisory Project (see below).

- The **Regional Workshop on Macroeconomic Forecasting and Poverty Reduction Strategies** (jointly with WAIFEM) took place from 9 to 14 July in Accra, Ghana. It was designed to introduce participants to poverty reduction strategies and especially their links with macroeconomic policy and forecasting.

Twenty participants from the Gambia, Ghana, Nigeria and Sierra Leone attended the workshop, and benefited from presentations by resource people from the Association of Coffee Producing Countries, DRI, UNDP, WAIFEM, the Ghanaian Ministry of Finance, Institute of Economic Affairs and Agricultural Development Bank, and the University of Uyo.

- The **2nd Francophone Regional Workshop on Macroeconomic Forecasting and Poverty Reduction** was held from 16 to 26 July in Cotonou, Benin, organised jointly with the BEAC/BCEAO Pôle-Dette. It was attended by 54 participants from eleven countries (Benin, Burundi, Central African Republic, Chad, Congo, Côte d'Ivoire, Equatorial Guinea, Mauritania, Niger, Rwanda, and São Tomé & Príncipe), together with representatives of regional and international Institutions (BCEAO, BEAC, CEMAC, DFID, IMF, UEMOA, UNDP and World Bank). This second workshop built on that organised in Yaoundé in December 2000, making recommendations will be submitted to the Zone Franc meeting in Spring 2002 (see article on page 8 on its practical results).
- The **Sierra Leone Debt Strategy Workshop** (see photograph) took place in Freetown, from 6 to 16 August and was attended by thirty-five participants, mainly from the Central Bank and the Ministry of Finance. It was organised jointly with WAIFEM. The workshop was designed to provide comprehensive training to Sierra Leone officials in the analysis of debt strategy issues, and to establish a sustainable government team capable of updating debt strategy analysis regularly, with minimal external assistance. The national team produced a preliminary national debt strategy report which focussed particularly on defining mechanisms to clear arrears and on the definition of the export base the PV/export ratio (including or excluding smuggled unrecorded diamond exports which do not contribute to debt payment capacity).
- The **Malawi Debt Strategy Workshop** was held from 15 to 24 August in Lilongwe, organised in collaboration with MEFMI. It was attended by 36 participants, primarily from the Ministry of Finance and Economic Planning and Reserve Bank of Malawi, who were trained in the analysis of debt strategy issues and produced an updated national debt strategy report. As Malawi has already reached its HIPC Decision Point, the analysis and report focuses on the actual delivery of debt relief to Malawi and whether or not Malawi will be sustainable even after reaching its Completion Point. As it was the

first joint DRI-MEFMI workshop following the successful Training for Trainers Workshop (see page 5), almost all the resource people were regional experts.

- **Demand Assessment Missions to Honduras and Nicaragua** in June and July, as the first activity in the joint programme with CEMLA in Latin America. The Director of CEMLA, Kenneth Coates, led the missions and was assisted by the DRI resident advisor, Gonzalo Afcha. The missions laid out an agenda for continued capacity-building and training after the imminent ending of the contract of the regional advisor. The advisor's final missions to Honduras and Nicaragua focussed on training on domestic debt management and on macroeconomic (especially fiscal) forecasting, as well as finalising all documentation for training modules and suggestions for reinforcing institutional structures and legal documentation.
- The **Rwanda Capacity Building and Debt Strategy Advisory Project** (co-financed by DfID and SIDA) is still in progress. A third mission took place from May 28 to June 9, and, in line with the work programme agreed with policymakers, assisted in writing a procedures manual for the debt unit and training staff in loan interpretation, debt recording, the Paris Club and the HIPC initiative. This mission also helped Rwanda's authorities in the preparation of technical aspects of the National Debt Strategy Workshop (see above). The fourth mission, from August 27 to September 7, is finalising the procedures manual and continuing with training in debt strategy software.
- **Transfer to Regional Institutions:** the first Training for Trainers workshop took place in Lilongwe, Malawi, from June 16 to 28, for the MEFMI region (see page 5 for more details on its results). As part of the process of the DRI review, Consulting Africa organised a meeting between DRI and its regional partners in Accra on August 25-26 to define future modalities of cooperation and capacity-building priorities.



Sierra Leone Debt Strategy Workshop: Hard at work!

above: Rwanda Debt Strategy Workshop: on the left, Gustave Nébíé, DRI new Programme Manager

CBP ACTIVITIES FROM JUNE TO DECEMBER 2001 cont.

- A considerable amount of time has been spent this quarter working with the team that is conducting the **review of the HIPC CBP** (see page 11 for more details).
- The **DRI website** has reached full scale operation on both the public and private sites in four languages (English, French, Portuguese and Spanish).

Future Activities

For September-December 2001, the following activities are planned:

- Three demand assessment missions - to Bolivia, Guyana and Vietnam;
- Two Debt Strategy National Workshops in Angola and Côte d'Ivoire;
- Ten Follow-up missions to Benin, Burkina Faso, Cameroon, Ghana, Guinea Bissau, Honduras, Mali, Nicaragua, São Tomé & Príncipe and Togo;
- Two Regional Domestic Debt Management Seminars with WAIFEM and BEAC/BCEAO Pôle-Dette;
- Two Macro Forecasting Regional Workshops with CEMLA and MEFMI ;
- One Macro Forecasting Senior Retreat with MEFMI
- One Debt Negotiations Regional Workshop with the Pôle-Dette;
- Completion of the CBP review and preparation of documentation for a possible phase III of the CBP;
- The ninth Steering Committee meeting and a regional Ministerial Meeting for Eastern and Southern Africa in Maputo, Mozambique, at the end of November.

The other priority for this period will be a major effort to improve DRI's information tools. The website will be made more user-friendly and proactive, with the main priority now being to upload practical technical resources (background reference papers, templates etc) onto individual tailored pages for HIPC Debt Data Specialists, Debt Strategy Managers, Macro Analysts and Poverty Reduction Analysts. A second key task will be to upload the latest versions of the CBP training materials onto the site. Publications will also be moving forward much faster, with the English and French versions of the first series available at the end of October. Spanish and Portuguese versions at the beginning of November.

For more details of our work programme and activities, see our website :
<http://www.dri.org.uk>

PROGRESS WITH DSA COMPUTERISED TOOLS

Data Transfer Links

As noted in Newsletter 8, improving the data transfer links for downloading debt data easily and accurately from national recording systems, such as CS-DRMS and DMFAS, to software packages, such as Debt-Pro and DSM+, is a key component underlying debt sustainability analysis. The good news is that such links are now available, easy to use and well documented.

For CS-DRMS users, there are now debt data links to both Debt-Pro and DSM+ and good documentation on how to run them. Yvonne Quansah from Ghana and Mosito Khetisa from Lesotho, both expert CS-DRMS users, have finalised the documentation on how to run the CS-DRMS - Debt-Pro link, which has been designed and programmed by Anna Velasová Koné of Mali. This document has been successfully road-tested in The Gambia, Malawi and Sierra Leone as well as at the MEFMI Training for Trainers workshop and copies can be obtained from the DRI private website in the near future. Furthermore, the Commonwealth Secretariat has decided to include the link as part of its next CS-DRMS launch in October 2001. The debt data link from CS-DRMS to DSM+ and documentation on how to run it have already been made available to countries by the Commonwealth Secretariat.

For sometime now DMFAS users have had a link to download national debt data to DSM+ and documentation explaining how to use it. Now DMFAS users will also be able to download their national debt data to Debt-Pro using new documentation and Excel templates prepared by Fred Ruhakana of MEFMI and Paddy Turyamwijuka of Uganda. This new documentation and templates will soon be posted on the DRI website. In addition, UNCTAD agreed at its meeting of Debt Managers in Geneva in June that it would include a formal

DMFAS - Debt-Pro link in the next version of the DMFAS recording system.

Templates

DRI has also been working with officials in HIPC Governments to improve the Excel templates used in our workshops to do debt strategy analysis, in particular:

- **Calculating HIPC debt relief:** this new and simple Excel template enables users to compute the amount of HIPC debt relief and the burden-sharing by multilateral creditors (See Technical Questions for more details of how these calculations are done).
- **Macro projections:** the DRIMACRO template has been expanded and improved to enable users to do 20-year macro projections more easily. Johnson Nyella of Tanzania has also written a new programme, entitled MACRO HELPER that allows users to view and check their macro projections for consistency across three scenarios.
- **Poverty reduction:** new poverty reduction programming templates have been produced which allow users to project the progress their country will make to the Millennium Development Goals based on historical trends and on the aims of their PRSP; to assess their historical capacity to execute poverty reduction expenditure; to project their poverty reduction expenditures over a 5-year period; and to calculate their remaining financing gaps for poverty reduction expenditures after debt relief (as well as a large number of ratios comparing poverty spending with GDP, population and debt service).

All these templates are available from DRI by email and will soon be on our website.

HIPC CBP REVIEW

Since May 2001 the HIPC CBP has been being reviewed by an independent team funded by DfID and organised by Consulting Africa. The aim of the review is to assess the progress of the CBP in the building of capacity in HIPCs, and in the transfer of its responsibilities from Debt Relief International to its regional partners - the BEAC/BCEAO Regional Debt Management Training Unit (Pôle-Dette) in Francophone Africa; the Latin American Centre for Monetary Studies (CEMLA) in Latin America; the Macroeconomic and Financial Management Institute (MEFMI) in Anglophone Eastern and

Southern Africa; and the West African Institute for Financial and Economic Management (WAIFEM) in Anglophone West Africa. Should this assessment prove positive, the review team will aim to define a way forward for a third phase of the Capacity-Building Programme, to continue building capacity for long-term debt sustainability in HIPC countries.

The review team began work by attending the HIPC Ministerial Meeting and Steering Committee Meeting in London in June. It has since then organised meetings with the various regional partner organisations,

DRI, and the HIPCs themselves, and held discussions with donors and other members of the Steering Committee. It has also sent questionnaires to resource-persons employed by the CBP, and conducted three case studies of debt management in individual HIPCs – Bolivia, Mali and Tanzania.

The findings of the review are expected to be presented to donors on 1 October, after which donors will make a decision on any future Capacity-Building Programme. The next edition of this newsletter will report extensively on these findings, together with any plans for future work.

TECHNICAL QUESTIONS

What new borrowing assumptions should you be considering when doing a DSA?

In principle, you need to include details of amounts and terms for (1) pipeline loans (loans already signed but not yet disbursing), (2) loans currently being negotiated, (3) possible new borrowings as set out in the Public Investment Plan (PIP) and the budget, and (4) balance of payments and budget gap filling loans. Since (1) and (2) are already known quantities, it is straightforward to include these new borrowing assumptions. The more difficult part is deciding on the amounts and terms of potential new borrowings.

Since one of the factors giving rise to future debt servicing humps of HIPCs after HIPC

relief, is significantly higher service payments for new borrowings, the assumptions you make about possible new borrowings are important. For many HIPCs, the major lenders of new money will be IDA and the regional development banks as these IFIs provide the most concessional financing. However, some HIPCs may want to consider new borrowings from other multilaterals because they disburse more quickly and/or negotiating the funding is less cumbersome. However, the concessionality of these loans may be less.

The following table provides a rough guide to grant elements and terms of multilateral lending:

The table assumes IDA and ADF lend in SDRs whereas all other creditors lend in US dollars. However, the currency of the loan will influence the grant element, which is computed on the basis of a currency specific CIRR rate to discount projected debt service payments. For instance an IDA loan, denominated in SDR, has a grant element of 70% whereas the IFAD loan with a shorter maturity, has a marginally higher grant element of 73%, because it is denominated in US dollars and the US dollar CIRR rate is higher than the SDR CIRR rate used to discount projected debt service payments.

Multilateral Creditor	Grant Element	Maturity / Grace period (years)	Interest Rate
African Development Fund	70%	50/10	0.75%
BADEA	35%-40%	22/5	2%-3%
Caribbean Development Bank	50%-55%	40/10	2%
IADB	55%-60%	40/10	1.5%
IDA	70%	50/10	0.75%
IFAD	73%	40/10	0.75%
Kuwait Fund	35%	20/5	2.5%
OPEC	47%	20/5	1%
Saudi Fund	41%	20/5	2%

TECHNICAL QUESTIONS cont.

How do you calculate total debt relief?

Under the Enhanced HIPC Initiative, the debt relief a country receives is to be sufficient to reduce its PV of debt to exports of goods and services ratio (PV/XGS) to 150% or its PV of debt to budget revenue ratio (PV/DBR) to 250% at the time of its Decision Point.

The ratios used in the calculation of debt relief are those after Naples Terms have been applied.

The following formulas for calculating debt relief at the Decision Point are based on the methodology established by the IMF and the World Bank as follows:

$D_{PV} = (R_A - R_E) / R_A$	$D_T = D_{PV} * PV_T$	<p>A numerical example:</p> <p>At the Decision Point, actual PV/XGS: $R_A = 250\%$</p> <p>HIPC II threshold ratio for PV/XGS: $R_E = 150\%$</p> <p>Reduction of PV/XGS to be achieved $D_{PV} = (250\% - 150\%) / 250\%$</p> <p>(Common reduction factor) in % terms: $= (100/250) * 100$ $= 40\%$</p> <p>PV of debt at Decision Point: $PV_T = \\$4000$ million</p> <p>Amount of debt relief required in PV terms: $D_T = \\$4,000m * 40\%$ $= \\$1,600m$</p> <p>In this example, debt relief of \$1,600m in <i>present value terms</i> is required to achieve debt sustainability.</p>
<p>D_{PV} = PV reduction of debt (in percentage terms) required to achieve the sustainability threshold of 150% for PV/XGS - also known as the <i>common reduction factor</i>.</p> <p>R_A = Actual PV/XGS (or PV/DBR) ratio at the Decision Point, after the implementation of traditional relief mechanisms (Testing HIPC).</p> <p>R_E = Threshold of the sustainability ratio (PV/XGS or PV/DBR) on which a country is eligible for debt relief.</p>	<p>In addition, it can be translated into actual amounts of money, in millions of US dollars, by the above formulas:</p> <p>D_T = Actual amount of debt relief (US\$ millions) required to achieve sustainability.</p> <p>PV_T = PV of public and publicly guaranteed external debt (multilateral, bilateral and commercial) at the Decision Point (US\$ millions).</p>	

How do you work out burden-sharing by creditors?

The next step is to determine the burden-sharing of this relief by creditor category or by individual creditor. The relief each provides is in direct proportion to their share of lending to a country in PV terms.

The following tables sets out the formulas used to calculate the amount of debt relief (in US\$ millions) by creditor category (multilaterals and bilaterals) or individual creditor (IDA) and provides examples.

Creditor or category	Formula	Values	Example
Amount of debt relief from multilaterals (D_M)	$D_M = D_T * (PV_M / PV_T)$	$D_T = \\$1,600m$ $PV_M = \\$1,200m$ $PV_T = \\$4,000m$	$D_M = 1,600 * (1,200/4,000)$ $= \\$480 m$
Amount of debt relief from bilaterals (D_B)	$D_B = D_T * (PV_B / PV_T)$	$D_T = \\$1,600m$ $PV_B = \\$2,800m$ $PV_T = \\$4,000m$	$D_B = 1,600 * (2,800/4,000)$ $= \\$1,120 m$
Amount of debt relief from IDA (D_{IDA})	$D_{IDA} = D_T * (PV_{IDA} / PV_T)$	$D_T = \\$1,600m$ $PV_{IDA} = \\$800m$ $PV_T = \\$4,000m$	$D_{IDA} = 1,600 * (800/4,000)$ $= \\$320 m$

Debt Relief International

4th Floor, Lector Court, 151-153 Farringdon Road, London EC1R 3AF, United Kingdom
t: +44 (0)20 – 7278 0022 f: +44 (0)20 – 7278 8622 e: dri@dri.org.uk <http://www.dri.org.uk>