

**FOREIGN PRIVATE CAPITAL
IN DEVELOPING COUNTRIES:
BUILDING CAPACITY FOR
ANALYSIS AND POLICYMAKING**

Phase 2 Programme Document

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with

Centro de Estudios Monetarios Latino-Americanos (CEMLA)
Macro-Economic and Financial Management Institute of Eastern and Southern
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EXECUTIVE SUMMARY

1. Overall Goal and Purposes

Based on a positive independent review, this project extends a pilot which supported 8 countries to develop capacity to monitor and analyse foreign private capital. It will provide under the high case budget scenario up to US\$8.1 million (including up to US\$1.3 million from participating countries) over January 2003-June 2006 for a Foreign Private Capital Capacity-Building Project (FPC-CBP), with the overall goal of allowing 9-14 governments to develop independent and sustainable capacity to monitor and analyse the effects of foreign private capital on their economies. However, current confirmed funding is shown in the baseline budget, under which it is more likely that only 9 governments will benefit, costing US\$5.4 million (including US\$1.0 million from participating countries). Transfer will be achieved in three ways through three components of the project:

- **Building national capacity:** cementing the capacity already created in institutions of 8 countries by ensuring sufficient national expertise to conduct and organise in-country training, extending this capacity to additional countries, and improving methodology by information exchange with a further 49 countries;
- **Building regional capacity:** decentralising the implementation of training, advisory and advocacy support on foreign private capital to regional centres of excellence, run by the countries themselves;
- **Raising awareness:** increasing national, regional and international awareness on initiatives and issues in monitoring and analysing foreign private capital by advocating policy lessons, and regional convergence towards common methodologies for such monitoring and analysis.

2. Areas of Intervention

The primary focus will be on monitoring and analysing foreign private capital stocks and flows and private sector external debt. As in the pilot, this will include:

1. Conducting surveys and using other reporting methods to collect **quantitative data** on foreign private capital, to comply with international codes and standards such as GDDS/SDDS, BPM5, SNA and the External Debt Statistics Guide.
2. Conducting surveys and improving other methods to collect **qualitative data** on the factors influencing decisions by suppliers of private capital, and their impact on poverty reduction.
3. Analysing the results for policymaking purposes through **analytical reports** on private capital flows and their implications for economic policy.

However, as demanded by the countries in the phase 1 international workshop and country-specific proposals for phase 2, phase 2 will place more focus on gathering information on and analysing the sustainability of foreign private capital, and its contribution to poverty reduction through corporate social responsibility policies.

3. Methodology/Outputs

The support provided under the programme will include:

- Initial comprehensive evaluation of monitoring and analysis methods (including survey and non-survey mechanisms), institutional and legal structures, coordination with wider statistical and analytical initiatives, and demand by countries to improve methods, via **demand assessment missions**.

- Establishing or strengthening **national task forces** to manage/implement the project with clear responsibilities for participating agencies, and full coordination with wider statistical and analytical initiatives, defined by memoranda of understanding.
- Direct training of public sector officials through up to **35 national training workshops** covering 600-700 officials.
- Tailored **private sector sensitisation and training campaigns**, to mobilize private sector responses to data requests and involve private sector associations in implementation.
- **1-2** (number dependent on funding) **training for trainers workshops** by December 2004 to increase regional trainers to 35, and further tailor training materials to country needs.
- **2 regional workshops** in Francophone Africa and Latin America to compare methodologies and explore prospects for extending the project into these regions.
- **1-2** (number dependent on funding) **international seminars** to facilitate the exchange of information on best practice and coordination of future assistance among participating countries, international and regional organizations and donors; and to advocate policy findings to regional policymakers.
- Enhanced **advocacy at national, regional and international levels** to present policy findings to senior policymakers and to the private sector, and to sensitise policymakers to the importance of building and using national capacity for managing private capital flows.
- **Rapid response follow-up missions and long-distance technical support** to provide comprehensive support in establishing national task forces, building registers of sources for data collection, improving questionnaires, providing detailed training and targeted sensitisation, and adapting implementation and analysis methodologies to country needs.
- A set of **information and knowledge products** designed to disseminate widely best methodological practices and analytical results. These will include a website including technical resource pages for foreign capital analysts, a quarterly newsletter, and publications documenting best practices/research findings.
- (Subject to availability of funding) on a pilot basis a **distance learning network** for monitoring and analysing private capital, in liaison with the fellowship programmes of its regional partners, and in cooperation with international/regional organisations.

4. Ownership and Sustainability through Decentralisation

- All project interventions will be **driven by “effective demand”** from the participating countries, acting reciprocally in response to efforts by governments to reinforce and use their own national capacity, and with the intensity of support declining over time as governments enhance their own capacity.
- All interventions will be **tailor-made** in their form, and their subject coverage, to the needs of each individual country.
- **Partnership with and decentralisation to developing country regions.** This will include
 - **Countries** (based on participatory evaluations of their capacity) establishing their own sustainable coordination structures for monitoring and analysis, conducting their own training events with national experts training their colleagues, and making major and rising financial contributions.
 - **Regional partner organisations (ROs)** (CEMLA for Latin America and the Caribbean; MEFMI for Eastern and Southern Africa; WAIFEM for Anglophone West Africa; establishing a joint Editorial Committee for Information and Knowledge Products, gradually assuming responsibility for project governance, and for organising and administering regional (and where necessary national) training events and missions, and for providing long-distance implementation advice and support.

5. Governance and Implementation Structures

- **Governance** of the programme will be undertaken by implementing organisations discussing programme implementation and then reporting to senior representatives of 4 participating countries, and donors. These meetings will occur every 6 months at the same time as the governance meetings of the HIPC-CBP, to agree work programmes, budgets and methodologies based on evaluations of country and RO capacity. Between these meetings, DFI and the regional organisations will jointly run the programme through long-distance communication.
- This governance structure will be supported by **advice from international organisations** (annual discussions with the Bretton Woods Institutions and information exchange with the Commonwealth Secretariat, OECD and UNCTAD) and information exchange with regional organisations (COMESA, EAC, SADC, UEMOA, WAMI etc) during the international seminars. The international organisations will also report on their own programmes to ensure full coordination and assistance with the programme.
- **Executing agencies:** support for country training, analysis and advocacy will be transferred gradually from a central non-profit office (Development Finance International) to regional organisations (CEMLA, MEFMI and WAIFEM).
- **Comprehensive reporting and evaluation mechanisms** will be gradually decentralized to regional partner organisations and include regular progress reports from countries to implementing partners, post-mission and workshop reports, semi-annual reports to donors, participatory evaluations of capacity in countries and regional organisations, and an independent review beginning in mid-2005. The project may also draw on lessons learnt from a financial sustainability review of the regional organizations executed by the HIPC-CBP in 2003.

6. Risks, Contingencies and Sustainability

The following measures will reduce risks to sustainability of the programme:

- Advocacy to and by policymakers at national, regional and international level will increase political commitment to using national capacity instead of technical assistance, and to changing data series and policies based on project findings.
- Advocacy to and greater involvement of the private sector will increase awareness of the utility of statistics and analysis, and willingness to provide information for policymaking.
- Intensified coordination with donors will transform offers of technical assistance into capacity-building support to reinforce national structures.
- Intensified coordination with the IMF and other international compilers of data will ensure that the quality of national and international data series is improved, and inform the design and implementation of data dissemination standards with developing country experiences.
- Intensified coordination with other providers of training will ensure that BOP and PSED training and software development are coordinated.
- Intensive assistance to countries will overcome institutional problems, changes of government, staff turnover, and low private sector response rates.
- Flexible methodology will continue to tailor interventions to key changes in capital inflows/outflows and key policy issues for individual countries.
- Intensified efforts at transfer to regional partners (designation of counterpart staff, training in project management) will overcome risks of decentralisation to ROs.
- Gradual decentralisation to country NTFs will ensure reliable project management and the development of comprehensive reporting and evaluation mechanisms, as well as full coordination with wider statistical and analytical programmes.

- Country membership of regional organisations and commitment to their long-term programmes will enhance long-term sustainability.
- The project review will analyse long-term institutional and financial sustainability.

7. Budget and Financing Sources

The ideal financing needed for Phase 2, in order to ensure the development of fully sustainable capacity in participating countries, is US\$8,138,024. Of this amount, US\$1,299,623 could be contributed by participating developing countries, so US\$6,838,401 is being sought from donors. As of January 2003, indications of funds amounted to US\$5,396,513, of which US\$1,058,112 would come from countries and US\$4,338,401 from donors.

This project document therefore presents two scenarios for a work programme and budget. The baseline scenario presents a programme based on current funding indications, which would be the minimum necessary to execute a sustainable programme for 9 countries. The high case scenario indicates the budget and work programme necessary for a fully sustainable programme which would be able to assist up to 14 countries and to provide greater support for training trainers, distance learning, interregional information exchange and other key aspects which are felt to be essential to the long-term sustainability of transfer to developing country regions. Discussions are under way with additional funders to fill the remaining financing gap through core or country-specific funds.

I. GOAL AND RATIONALE

1.1. Overall Goal of the Programme (see also LogFrame in Annex A)

The goal of this programme is to provide up to US\$8.1 million (including US\$1.3 million from the participating developing countries) over January 2003-March 2006 in order to assist up to 60 governments to develop independent and sustainable capacity to monitor, analyse and manage the effects of foreign private capital (foreign direct investment, portfolio investment, bank loans, etc) on their economies and their prospects for sustainable development.

Based on a very positive independent review, high evaluations by governments and private sectors of the pilot phase countries, considerable interaction with and commitment by regional organisations, and endorsement from the IMF and World Bank, this programme extends a successful pilot project which covered 8 countries.

1.2. Developing Country Demand

This project arises from demand by 60 developing country governments in Africa and Latin America,¹ which was expressed in projects coordinated by Development Finance International (and its predecessor External Finance for Africa) during 1996-2002. The projects were funded by the Austrian Foreign Ministry, Danish Foreign Ministry, the UK Department for International Development (DFID), the Swiss State Secretariat for Economic Cooperation (SECO), and the Swedish International Development Cooperation Agency (Sida). In these projects, government officials built their capacity to analyse foreign private capital flows to and from their countries, and examined how to improve their monitoring of flows.² Most recently (in 2000-02), eight countries (The Gambia, Ghana, Guyana, Malawi, Tanzania, Trinidad and Tobago, Uganda and Zambia) have been implementing comprehensive surveys of private capital flows and private sector debt, in order to analyse their effects on economic growth and poverty reduction, and the motivations behind them, in a formal pilot programme (phase 1) consisting of multiple country projects. In addition, this country demand is also based on the substantial experience of the regional partners involved in this programme (CEMLA, MEFMI and WAIFEM) of training in balance of payments statistics and analysis.

The countries' demand for this programme (phase 2) – which is a continuation and expansion of phase 1 – is based on three factors: 1) their wish to analyse foreign private capital because of its volatility and impact on economic management, in order to identify macroeconomic and investment promotion policies which will reduce its instability and enhance its contribution to poverty reduction; 2) their need to monitor such flows to comply with international best practice and financial codes and standards, to produce transparent data for investors, and to conduct the

¹ Bolivia, Burkina Faso, Ethiopia, The Gambia, Ghana, Guinea, Kenya, Lesotho, Malawi, Mauritania, Mozambique, Nigeria, Rwanda, Sao Tome e Principe, Sierra Leone, Tanzania, Uganda and Zambia, as well as 13 other Franc Zone members (via BCEAO/BEAC) and 27 Latin American countries (via CEMLA). For more details, see 3.1 below.

² The specific projects were:

1. "Private Capital Flows and Macroeconomic Policy in Sub-Saharan Africa" (1996-7);
2. "Monitoring Private Capital Flows in Eastern and Southern Africa" (1997);
3. "Intra-Regional Private Capital Flows in Eastern and Southern Africa" (1998);
4. "Public-Private Partnership Surveys to Monitor Private Capital Flows" (2000-1);
5. "Monitoring Private Capital Flows to Developing Countries" (2001-2).

The Centre for Research into Economics and Finance in Southern Africa (CREFSA) at the London School of Economics was also involved in the implementation of the first three projects.

above analysis; and 3) the lack of availability of comprehensive assistance on country-specific implementation of monitoring and analysis from other international organisations.

1.2.1. Effects of Private Capital Flows on Economic Management

During the projects described above, many developing countries found they were experiencing flows (especially of FDI, private transfers through bureaux, and short-term bank loans) much higher than previously believed, with higher ratios compared to GDP or GFCF than more internationally prominent recipients of flows in Asia or Latin America. In the context of de facto or de jure external liberalisation, usually with insufficient monitoring or analytical support, these flows had also been extremely volatile, creating severe crises of booms and busts.

Flows therefore had major positive and negative effects on their economies, notably:

- Excessive *exchange rate volatility and appreciation/depreciation*, with knock-on effects on export competitiveness or inflation (given limited potential for intervention in forex markets);
- Highly *volatile imports*, leading in some cases to a growing trade deficit;
- *Boom and bust economic cycles* compounded by simultaneous terms of trade or climatic shocks, and failure of countercyclical official flows to respond in time;
- *Reserves volatility* causing problems in meeting monetary targets;
- Significant *positive effects on investment* (which probably has less to do with causality than with other factors influencing foreign private flows and domestic savings and investment);
- Relatively *strong impacts on growth*, notably through FDI, private transfers being transformed into FDI, and short-term pre-export financing;
- Persistently *high real interest rates, with greater volatility*, due in part to foreign purchases of treasury bills, causing major problems for government financing and private investment;
- Dramatic *volatility of monetary aggregates* through changes in net foreign assets, and switches between domestic and foreign borrowing, elements of which (foreign currency accounts and commercial bank reserves) are largely outside the control of monetary policy.
- *Banking crises* due to overexposure of banks to foreign currency borrowing on behalf of clients, or to interest rate volatility.³

The countries wishing to participate in this project therefore see analysing private capital flows as crucial to economic policymaking, macroeconomic stability and sustainable poverty reduction. The pilot project (see Section 3.5.2) has shown that policy implications extend well beyond external sector liberalisation, with particularly strong conclusions for taxation policies, financial sector reforms and regulations, investment promotion efforts, infrastructure, health and education policies, and corporate social and environmental responsibility issues.

1.2.2. Compliance with International Best Practice

In the context of the codes and standards for the international financial architecture, to improve the stability of international financial flows, one of the key elements has been the need for countries to monitor the flows and stocks of international private capital. This is essential to decisions on which of the codes and standards for domestic financial sector actions are top priorities, and how they should be designed in order to maximise financial stability.

In addition, improving the monitoring of private sector capital flows and stocks will enable countries to better comply with various international standards for data dissemination. Improving information flows to the national and international private sector should improve the functioning of

³ For details, Bhinda et al (2000) *Private Capital Flows to Africa: Perception and Reality* (FONDAD: The Hague); and Leape et al (2001) *Intraregional Private Capital Flows in Eastern and Southern Africa* (DFI/LSE: London)

domestic and international capital markets, allowing a more efficient allocation of capital and reducing volatility caused by herd behaviour and contagion:

- Monitoring all flows is essential to IMF *Balance of Payments Manual (5th Edition)*, General Data Dissemination System (GDDS) and Special Data Dissemination Standard (SDDS) benchmarks for coverage, periodicity, timeliness; quality and integrity of disseminated data; and public access. This includes private capital flows for the BOP and stocks for the IIP.⁴
- Private sector external debt (PSED) and short-term debt is crucial to BIS-led national and cross-border banking supervision, capital adequacy and bank transparency, to IMF-World Bank led guidelines for sound debt management, and to the *External Debt Statistics Guide*;
- Portfolio flows are crucial to IOSCO information-sharing and transparency guidelines;
- FDI fits with the OECD guidelines for multinational enterprises.

Improvements in capital flows data feed into wider international and national efforts to improve the System of National Accounts (SNA) and other macroeconomic data. This programme complements wider donor efforts to promote efficient and effective statistics collection by addressing the legal mandate to collect data, promoting coordination within countries among public and private institutions interested in compiling or using this data, and hence rationalising data collection to avoid duplication of effort. It thereby reduces the burden on the private sector, and conserves scarce donor and local resources. It also provides much higher quality benchmark data sets that feed into complementary donor-supported efforts in regional and international data reconciliation. The programme ensures that there is no duplication or overlap among statistical collection projects by coordinating fully with all other agencies.

Additional detail collected (recipient sector, region and source country) will improve macroeconomic policy formulation and help to target investment promotion and facilitation efforts more effectively. In order further to enhance their policy relevance, governments have insisted that the surveys go beyond collecting balance of payments data, by including investor perceptions questionnaires. These allow government to ask a wide range of questions about the perceptions, motivations and intentions of the suppliers of private capital, and to adjust their policy accordingly. The questions are also often addressed to locally-owned companies, allowing them to express their views on government policy, and allowing government to contrast these with foreign investors, and to forecast domestic and foreign investment patterns.

Finally, the programme will allow governments in various developing country regions (notably SADC, WAMU, the Franc Zone and Latin America) to ensure that their methodologies for monitoring and analysing private capital flows and stocks are similar and compatible with international best practice, and to ensure that efforts by regional institutions to analyse such flows and stocks are in line with international codes and standards.

1.2.3. Availability of Other Assistance

Assistance currently available on these issues is as follows:

- The **IMF** through its Statistics Department which oversees the data dissemination standards, its Office of Technical Assistance Management (OTM) and its African and Caribbean Technical Assistance Centres (AFRITACs/CARTAC) has programmes of training in basic concepts of balance of payments statistics and analysis, most of which have been decentralised to regional institutions, primarily those with which this current programme is working. They also conduct monitoring and review missions of country statistical systems and progress towards the international codes and standards, and

⁴ Of the countries demanding DFI assistance, 17 currently participate in the GDDS and 9 meet SDDS standards.

send short technical assistance missions to countries to make recommendations on how to improve statistics. Occasionally on request from countries they supply balance of payments (or wider) statistics advisors to central banks or statistics offices. However, discussions with the IMF have agreed that the degree of intensive in-country capacity-building provided by the FPC-CBP means that it is a highly desirable complement to the more general recommendations made by such IMF assistance, and any duplication of resident advisor mandates will be avoided.

- The **World Bank** through IFC's Foreign Investment Advisory Service (FIAS) provides advice on the restructuring of investment agencies, the simplification of investment procedures and laws and the improvement of investment promotion. These projects occasionally include elements of surveying the private sector, but with questions relating to the details and delays in investment procedures, which do not overlap with the FPC CBP. In addition, most of the surveys are conducted by private consultants in cooperation with investment agencies, therefore involving very limited capacity-building within government agencies. IFC and FIAS see no overlap with the FPC-CBP.
- Various **donors** fund statistics offices to execute national statistics strategic plans and other surveys of the private sector (Enterprise Surveys, Business Enquiries). However, the FPC-CBP is fitting into these wider plans and coordinating to the maximum with other surveys through National Task Forces, to avoid any risk of duplication or overlap.
- **Regional organisations** (including the partners in this programme) conduct balance of payments statistics and external sector analysis training courses. In addition, MEFMI has designed a Private Capital Flows manual on statistical collection methods. However, the participating countries and partner regional organisations acknowledge the value-added of the DFI programme, particularly on in-country implementation of statistical collection and analysis, and on training countries in more proactive analysis of the volatility, sustainability and macro/poverty impact of private capital flows.

The pilot programme has made every effort to coordinate with these wider programmes and to avoid duplication, with the result that they are supportive of the programme's work. These efforts will continue in phase 2 (see also 4.1).

II. PURPOSES AND OUTPUTS

The programme has three purposes (see also LogFrame in Annex A):

2.1) **Building National Capacity**

The aim is to build sustainable capacity in the national institutions of up to 14 countries to monitor and analyse foreign private capital, investor perceptions and intentions, and corporate social responsibility. This will in turn improve the transparency and quality of economic statistics, and comply with international codes and standards. It will also use the results of monitoring to analyse the causes, effects and sustainability of private capital, and make recommendations to change government macroeconomic and investment promotion policies in ways which encourage foreign private capital to be stable, high quality and low cost and to maximise its contribution to sustainable development and poverty reduction.

By the end of the programme, all participating countries will have conducted at least one comprehensive data collection exercise on private capital. At least three-quarters of these will have established sustainable structures for collecting data annually, and for managing

the associated administrative and financial reporting tasks, and will be organising their own refresher training on these issues. Four pilot countries will be conducting their own training by managing their own distance learning programmes. A further 46 countries will have their methodology improved by exchanging experiences on best practices.

2.2) Building Regional Capacity

The aim is to decentralise the implementation of additional training, advisory or advocacy support needed by the countries, to developing country regions, coordinated by regional centres of excellence which are run by the countries themselves. This will intensify ownership by the countries, increase sustainability and reduce costs. In phase 2 of the programme, the focus will be on decentralising to MEFMI for Anglophone Eastern and Southern Africa, to WAIFEM for Anglophone West Africa, and to CEMLA for Latin America and the Caribbean. By the end of this phase, regional organisations will be expected to provide assistance through missions and workshops comparable to that of DFI, incorporating capital flow monitoring into their work programmes, as well as leading the joint governance, advocacy and information products structures of the programme. In addition, based on demand, regional seminars will be held with CEMLA for Latin American countries and with BEAC for Francophone Africa, to gauge their demand for future country projects and regional programmes of decentralisation, and share their experiences of best practices.

2.3) Raising Awareness

The aim is to increase national, regional and international awareness of initiatives and issues in managing foreign private capital, by advocating policy lessons. This will occur via:

- i) national level advocacy to public sector policymakers and private sector leaders at annual sensitisation and awareness seminars in which the results of analysis will be presented and policy initiatives announced;
- ii) regional advocacy through presentation of results to existing regional fora; and
- iii) international advocacy through one or two (depending on funding availability) international seminars attended by international organisations and independent experts, and a comprehensive set of information products including a website, publications and a quarterly newsletter.

To fulfil its purposes, the programme will achieve the following outputs (**see also Annex A**):

Purpose 1 – Building National Capacity

- 1) Effective permanent institutional structures among government and private agencies, supported by strong legal mandates, adequate staff and work procedures for government units. These will be institutionalised through terms of reference or memoranda of understanding between countries and DFI/ROs at an early stage in each country project, which maximise coordination with wider national statistical and analytical programmes.
- 2) The preparation of a reliable investor register together with documented procedures for its updating. The rapid turnover of companies within the private sector will require such a register to be constantly updated in order to keep it at approximately 80% reliability.
- 3) National capacity to develop (and adapt to national circumstances) best practice tools to collect and record data through survey and non-survey methods. To achieve this output, the programme will undertake comprehensive training of approximately 600 public sector officials in the concepts and execution of monitoring and analysing private capital flows, and in the development of questionnaires, reporting forms, manuals and software, and the implementation of data collection and the entry/checking/updating of data collected. It will also ensure that all of these tools are available to all participating agencies.
- 4) Sensitisation (and training) of approximately 1800 private sector leaders on the importance of such monitoring and analysis (and therefore of responding) to their business decisions, through multiple methods including full involvement of private sector associations in the execution of data collection, training and pilot testing of the private sector at the start of data collection, sensitisation during company visits, and training and sensitisation meetings of sub-groups of the sample of companies.
- 5) Compliance with international statistical standards (notably GDDS and BPM5 and SNA) in terms of quality and timeliness of data on private capital flows and private sector debt provided to international and regional organisations.
- 6) Annual analytical reports on private capital and on its implications for economic and financial sector policies, and for the stability of international/national capital flows. These reports will recommend changes to data but more particularly to policies including those for external sector liberalisation but also for a wide range of policies for promoting and stabilising flows.
- 7) A demonstrated in-country capacity to train colleagues in most of the concepts and techniques of the programme, which will reduce reliance on non-national experts and donor funding to a minimum, with around 4 experts per country able to train their fellows.

Purpose 2 – Building Regional Capacity

- 1) Technical and management capacity within the regions (coordinated by regional organisations) to run country projects and to provide support through demand assessment and follow-up missions, national workshops and seminars, and long-distance technical advice. To this end each RO will nominate technical counterpart staff during 2003, who will be fully trained in project management by mid-2005 through participation in all types of missions/workshops.
- 2) Administrative and financial capacity within the regions (coordinated by regional organisations) to administer and report on the finances of country projects, missions, workshops and seminars. To this end each RO will nominate administrative/financial counterpart staff by quarter 1 2004, who will be fully trained in administration and financial reporting by mid-2005.
- 3) A pool of technical expertise from within their own member states for each RO to draw on for training other member states. By March-2006, the aim is to have at least 35 experts available across the three regions who are available for training other countries.
- 4) Decentralisation of management of advocacy and governance structures, and production and management of information products to the regions (coordinated by regional organisations).

Purpose 3 - Raising Awareness

- 1) Annual national awareness seminars which attract all significant public and private sector leaders as well as representatives of major private sector associations, and which have a major impact on policy through dialogue about project findings;
- 2) One-two (depending on funding availability) international seminars which attract the key technicians and policymakers from the participating countries, in order to generate cross-country consensus on policies; and
- 3) Highly-regarded information and knowledge products including a website, newsletter, research-based publications and (depending on funding availability) a distance learning network, which can influence international policy views and make international best practices available to the countries.

III. METHODOLOGY AND ACTIVITIES

3.1. Country Coverage

Phase 1 has been successful because it has focussed its resources on a limited number of countries. Nevertheless, given the critical importance of foreign private capital to economic policy in most developing countries, and the lack of capacity-building assistance from other sources, the programme has generated a large number of requests for assistance in its next phase. Table 1 shows the 60 countries which have requested assistance from phase 2.

*

Table 1
Country Requests for Participation in the Programme, as of January 2003

1. Countries presently participating and wishing to continue to receive support in phase 2(7)	The Gambia, Ghana, Malawi, Tanzania, Trinidad and Tobago, Uganda, Zambia
2. Countries with written official requests for assistance and which have received demand assessment missions in phase 2 (3)	Kenya, Lesotho, Mozambique
3. Countries of focus for the Swiss government which have indicated interest in participating (2)⁵	Bolivia, Burkina Faso
4. Countries expressing preliminary interest to participate in phase 2 (7)	<i>Anglophone Africa:</i> Ethiopia, Nigeria, Sierra Leone <i>Francophone Africa:</i> Guinea, Mauritania and Rwanda <i>Lusophone Africa:</i> Sao Tome e Principe
5. Regional Institutions expressing interest on behalf of members (41)	<i>Francophone Africa:</i> BCEAO/BEAC (13 other members) <i>Latin America:</i> CEMLA (28 additional member states)

As can be seen above, these countries fall into five categories:

GROUP 1: already participating in the DFI programme and wishing to continue to receive support in phase 2 (seven countries). This support would focus on:

- cementing country capacity and ensuring financial sustainability for data collection and analysis through increased funding by government institutions;
- deepening methodology to reflect country-specific needs such as sector sample surveys, questionnaires on investor policies and corporate social responsibility;
- improving coverage, frequency and timeliness of monitoring by refining the sample for data collection through focussed and extensive sample surveys, and improving sensitisation to provoke responses from non-respondents; and
- introducing new analytical techniques to assess the sustainability of foreign private capital and its potential contributions to poverty reduction through corporate social responsibility.

GROUP 2: Expressing formal demand to participate in phase 2 (3 countries⁶).

GROUP 3: Countries of focus for the Swiss government which have expressed interest in participating (2 countries).

GROUP 4: Countries expressing preliminary interest to participate in phase 2 (7 countries); and

GROUP 5: Other countries which are members of regional institutions participating (41).

⁵ These also include Ghana, Mozambique, and Tanzania.

⁶ Recently Swaziland also requested assistance.

Financial resources from donors available at the start of 2003 will be able to assist only 9 countries intensively in phase 2. Three to four more countries could join the programme if additional donor or country funding is mobilised. Priority would be given to countries in Groups 1-3, provided that they confirm a wish for assistance. Should any of these countries not confirm, Annex B describes the procedures which will be applied for considering additional countries in Groups 4-5. Should sufficient funding be mobilised to cover the full budget of US\$8.1 million, a further 1-2 countries could join the programme in phase 2, based on Annex B. All countries would initially receive a demand assessment mission to confirm political and financial commitment and that of donors, and ensure maximum coordination with other statistical and analytical initiatives, and thereafter would receive basic support for data collection and analysis of the type described below, and then gradually deepen and cement their methodology as with Group 1.

Remaining countries would be introduced to the programme methodology by regional work shops co-organised by regional organisations. Thereafter, efforts would be made to mobilise assistance and funding for any country or regional group making a firm formal demand for assistance, again according to the principles outlined in Annex B. Indicative Work Programmes for 2003-06 are attached as Annex C, showing the baseline (9 countries) and high case (14 countries) scenarios.

Continuing assistance to countries under the programme will depend on their demonstration of political, financial and technical commitment to executing the methodology on schedule. Priority will be given to countries which demonstrate the strongest commitment by their own actions. It is also expected that after 34 years' assistance, most countries would require only refresher training and information support on best practices from the implementing partners: their progress towards this goal would be assessed by the semi-annual evaluation of capacity.

3.2. Implementation of Country Projects

3.2.1. Timetable and Structure

In the pilot phase, countries completed benchmark surveys which covered the entire population of potential holders of foreign assets and liabilities. Projects including these were planned over 9-12 months, but it was found that they required 12-15 months, especially if institutional structures, policymaker leadership or company registers were not strong. In phase 2, initial benchmark surveys will last a maximum of 15 months, as described in Box 2.

However, in subsequent years, assuming that the benchmark survey is a success, countries will move to smaller sample surveys. This will allow cycles of data collection and analysis to accelerate by 3 months each year in order to ensure that the countries meet GDDS timeliness standards (to be able to report data within 6-9 months of the end of the reference year) by the end of the programme period, and will also reduce the amount of external support needed.

BOX 1

Timetable and Structure of Country Projects

From the date of receipt of a formal request to the programme for assistance, the maximum 15 month cycle for a typical survey will comprise the following:

	Timing
1) Review of request and preparations for Demand Assessment Mission	weeks 1-5
2) DFI/RO Demand Assessment Mission to Assess Conditions, Establish Coordination Structure, Define Methodology and Budget	weeks 6-7
3) Finalisation of preparations for opening conference/workshop and investor sample	weeks 8-14
4) Initial Public and Private Sector Awareness Conference and Training Workshop and Agreement on Final Methodology, Sample and Budget	weeks 15-17
5) Preparation and Launch	weeks 18-23
6) Implementation– Data Collection, Interviews, Data Entry, Checking, Sample Review (supported as necessary by mission to train on software and check data)	weeks 24-46
7) Analysis and Report Writing	weeks 47-54
8) Dissemination to stakeholders at Closing Conference and Agreement on Measures for Long-Term Sustainability	weeks 55-56
9) Finalisation of report for dissemination to stakeholders/posting on website, and	--

The focus of the programme is on providing intensive training and assistance to countries in the design and implementation of comprehensive sample surveys and data collection through other sources, as well as in establishing sustainable institutional and funding structures for their continuance. Many countries require intensive implementation support, both long-distance and in-country, to reinforce institutions, contact respondents to generate responses, clarify the company register, or provide refresher training on implementation.

3.2.2. National Leadership and Coordination

DFI promotes in-country leadership and coordination by assisting the establishment of “National Taskforces” (NTF) of senior government officials from bodies interested in analysing trends in private capital flows (usually central banks, statistical offices, investment promotion agencies and ministries of finance). These are responsible for the design and implementation of data collection and the production and dissemination of analytical reports. However, as suggested by the review, future country project design and implementation will be based on a more detailed document (memorandum of understanding among national institutions) which includes agreed targets for actions by each NTF member which can be monitored and evaluated by the country team, regional organisations, DFI and donors, a transparent overall budget, and financial, institutional, political and staffing commitments by the country government. It will also ensure maximum coordination with all existing wider national statistical and analytical initiatives, to

maximise coordination of survey schedules and minimise duplication of effort by public and private sectors.

3.2.3. Public-Private Sector Partnership, Sensitisation and Response Rates

To create partnership with the private sector, NTFs include key private sector bodies. They host private sector awareness and training events before each data collection exercise, to brief them on its importance, obtain comments on methodology, and address investor concerns. During data collection they hold regular public-private consultations, and at the end run feedback events, where data and analysis are disseminated to the private sector, to promote public-private cooperation in policy making.

Leadership and coordination with the private sector has yielded dramatic increases in private sector response rates and data quality, due to improved public-private sector policy dialogue. In most countries, response has covered more than 75% of institutions with foreign assets and liabilities, and over 85% of estimated private capital flows and stocks by volume. Two countries have had lower responses, reflecting in one case problematic government-private sector relations, and in another a change in government resulting in high government staff turnover.

However, as suggested by the review, the private sector will be even more fully involved in phase 2, by disseminating the questionnaires through private sector associations with their endorsement, and improving sensitisation through greater focus on private sector sub-groups, consulting the private sector on form design, working with private sector association to improve response rates, and closer integration with other fora for public-private sector dialogue.

3.2.4. Flexible Methodology

The programme methodology is highly flexible and constantly learning lessons as follows:

- Developing or improving generic tools, such as survey forms and other data collection instruments, enumerator manuals, tracking systems for monitoring, and software for data analysis, before customising them in cooperation with each country.
- Conducting a full review of all existing data sources during an initial Demand Assessment Mission, and using such sources to supplement or replace data collection through surveys.
- Adapting even more all of the above tools to the needs of countries, taking into account differing levels of capacity, legal mandates of government institutions, differing degrees of capital account liberalisation, existing data collection methods and practices, different types of flows they are receiving, institutional and capacity constraints, coordination with wider surveys of enterprises and of the current account, and relations between government and private sector.
- Increasingly emphasising user-friendliness to the private sector, with a complete overhaul of all tools to ensure that all concepts are clearer to respondents, and much more stress in training events on training public sector officials in how to explain concepts and reporting needs, and on training the private sector in how to complete forms.
- Drawing on the skills and experiences of participating countries in order to help others.

3.3. Training Methodology

The programme provides comprehensive training in all aspects of data collection and private capital analysis for up to 45 national officials in each country. This will provide an average of 12-15 training days per official in year 1 of each country's participation, and 8-10 thereafter (including opening and closing workshops and on-job training during follow-up missions).

Over 90% of the officials trained are expected to be fully involved in the management of capital flows in their own national institutions. This is because National Task Forces identify staff for training based upon their intended sustained participation in the monitoring and analysis of capital flows. Depending on the division of labour agreed among national institutions, such tasks as survey organisation and execution, data collection through non-survey methods, analysis of results etc are assigned to all trainees at opening workshops, and factored into institutional and staff job descriptions. Staff turnover (see 5.1) and unsuitability of some trainees revealed during the workshop account for around 10% of non-involvement over 2 years.

The content is tailored to the needs of the country as identified during a Demand Assessment Mission, and by recommendations of other technical assistance missions. It varies according to the types of flows the country wishes to monitor, and existing monitoring structures, as well as the degree of exchange control. It is targeted at senior technical staff. It begins with presentation and discussion of best international, regional and national practices, and then covers all aspects of data collection and analysis including background technical knowledge, its application to survey forms and other collection methods, interview and editing and checking techniques, and software for data entry. Through a strong emphasis on practical training and simulations, field staff are in a position to train respondents to respond to reporting requirements and complete survey forms. They also agree fully on institutional arrangements and responsibilities, and conduct comprehensive planning of the project timetable and management procedures.

Equally, the methodology is tested on the private sector. At the opening workshop, the national team spends one day familiarising approximately 60 key representatives of the private sector with an enumerator manual (see below). The programme also in separate sessions conducts training of staff from major investing companies, commercial banks, foreign exchange bureaux and stock exchanges in the different collection tools to be used.

DFI prepares a comprehensive manual for each event (see Annex D for a sample timetable for content and coverage). A generic manual is already on its website and updated semi-annually.

During phase 2, the programme will focus even more closely on the needs of practitioners, making training even more interactive, and including more detailed training on the types of international business financing available to private investors, in order to assist enumerators to identify FAL more clearly. Design and implementation will also include a broader focus than in phase 1 on non-survey reporting mechanisms and cross-checks of data derived from different reporting mechanisms.

At the end of the programme, it is expected that the officials trained will have mastered the following skills up to international best practice level:

- Designing legal and institutional structures to empower data collection, protect data confidentiality, and maximise coordination among national institutions.
- Organising and managing large-scale survey and non-survey data collection.
- Drawing up and revising a sampling frame for benchmark and sample surveys.
- Designing survey and non-survey tools for data collection, adapting them to national circumstances and needs, and using them in the field.
- Making presentations to and conducting interviews with private sector leaders and investors, and representatives of donors, trade/investment attachés and international organisations.

- Interpreting and explaining to the private sector detailed practical implementation of balance of payments, private capital flows and private sector debt technical terms, definitions and concepts in the context of their own economy.
- Interpreting in detail international data codes and standards, how they apply to their economy, and their feasibility in the context of capacity constraints.
- Editing and checking data and uprating data to offset non-response or misreporting by individual companies.
- Mapping data collected into the BPM 5 methodology at a country level.
- Software installation, design, data entry, report production and validation.
- Organising campaigns to sensitise the private sector on the importance of data and analysis for national economic management, and to disseminate results nationally and internationally in order to meet international transparency standards.
- Analysing the nature, trends and composition of private foreign capital.
- Analysing the interactions between private foreign capital, the rest of the national and international economy, and macroeconomic policy.
- Analysing the volatility and sustainability of capital flows and the national and international factors which are influencing this.
- Analysing investor perceptions and their implications for investment promotion policy and the sustainability of flows.
- Analysing the contribution of flows to poverty reduction, and the commitment of their suppliers to corporate responsibility policies.

Programme trainers are predominantly drawn from participating countries in Africa and the Caribbean, and from regional partner organisations. The programme has trained 20 of these to a level of training expertise sufficient to be resource people, to fulfil our mandate for regional capacity transfer. In phase 2, the programme will focus in the first 24 months on three types of formal “training for trainers” to expand this pool of expertise to at least 35:

- between one and two (depending on funding availability⁷) formal workshops which will allow trainers to demonstrate and sharpen their training skills and improve training materials, and train additional trainers; and
- (depending on funding availability) attachments of developing country experts to DFI or other participating countries to deepen skills in particular areas and improve overall programme methodology. It will also as appropriate host “Fellows” from its partner organisation programmes, who are working on private capital or private sector debt.
- (depending on funding availability) attachments of regional organisation staff to DFI in order to receive training on all aspects of managing the individual country projects and the overall programme.
- on-the-job training of administrative and financial staff in the administration of country events and financial reporting to donors.

In addition, capacity transfer will be enhanced by:

- an annual consultation visit to the Bretton Woods institutions to maximise coordination and advisory inputs. Currently provision has been made for yearly visits by one DFI and two RO representatives. However, if more funding is available, representatives from all ROs will participate.

⁷ Additional funding would be prioritised to Training for Trainers, participation by ROs in annual visits to the Bretton Woods institutions (see page 24), and country expert and RO staff training attachments.

3.4. Data Collection Tools and Methods

3.4.1. Survey Forms and Other Collection Methods

DFI has developed specific survey forms to capture all types of Foreign Assets and Liabilities of the private sector (foreign direct and portfolio investment, different types of private sector debt, and flows through banks and foreign exchange bureaux). They also include a survey of the perceptions of the suppliers of the flows, which promotes compliance with the data survey, and captures data on the factors encouraging and discouraging investment, and on investor intentions and policies, which is of key importance to investment promotion and facilitation.

Where appropriate, the programme has reinforced other existing methods for collecting data (bank and bureaux reporting forms, import documents, other foreign exchange use reporting). In phase 2, it will make even more effort to supplement survey data with these other sources which can provide regular reporting data, depending on the degree of external liberalisation.

Methodology is based on best international and regional practice. BOP-related forms draw on a vast pool of expertise, from specialists in international institutions (BIS, IMF, OECD, UNCTAD, World Bank); and a wide range of international central banks, investment promotion agencies and stock exchanges (Australia, Belgium, Botswana, Canada, Chile, Guyana, Indonesia, Malaysia, Mauritius, Namibia, Philippines, Poland, South Africa, Uganda, UK and Zimbabwe). To facilitate compilation and reporting to the BWIs, DFI has coded and electronically linked its forms directly to the relevant components of the BOP and IIP in BPM5.

The investor perception forms draw on DFI's own experience of interviewing investors in the UK, Africa and the Caribbean; and on best international practice in data collection by investment promotion agencies, private sector associations and accountancy and consultancy firms. They cover the whole range of government policies and other national circumstances, in order to identify the key barriers and incentives for investment.

The forms have been refined in extensive in-country application. Rather than being a blueprint, they are tailored to country circumstances (such as the degree of liberalisation of capital flows, availability of staff for implementation, or wish to coordinate with other surveys) and analytical priorities (different focus on types of flows, sectors or policy issues). They stress simplicity, with fewer forms and less frequent periodicity than some TA recommendations, while meeting GDDS standards. As a result, countries (public and private sector) develop and own a country-specific methodology, with DFI providing quality control based on international best practice. Nevertheless, the review has suggested several improvements and simplifications to questionnaire design to make them more user-friendly, which will be implemented in Phase 2.

In addition, based on strong developing country demand, phase 2 will expand the forms in a selective manner, bearing in mind country progress with core aspects of BOP data and investor perceptions, to cover questions which monitor the volatility and sustainability of private capital and the contribution of private capital to development through corporate non-financial behaviour. Methodology in the area of corporate non-financial behaviour will be developed gradually, taking full account of efforts by other in-country institutions and international initiatives, and avoiding excessive detail which might overburden private sector respondents.

3.4.2. Enumerator Manuals

Enumerator manuals are a central part of the capacity transfer. The DFI draft is tailored by the country to country circumstances. It is intended as a comprehensive reference for enumerators,

supervisors and coordinators, as a proactive means for field staff to train the private sector to complete technically challenging forms during interviews, and as a tool for refresher training or training of new staff. It thus covers background information (based on awkward questions asked by private sector in other countries), detailed instructions on institutional coordination, fieldwork techniques, explanation of technical terms and editing and checking techniques on the forms, letters of introduction, the forms themselves, visit sheets, contact information etc. As with all other items of methodology, it has been and will continue to be improved through testing in each individual country.

3.4.3. Company Registers

These were a key issue highlighted by the independent review of the programme. Although the pilot phase consulted all possible sources on potential companies with FAL, countries spent a large amount of time refining down investor registers through field visits, finding that many initially identified companies either did not exist or had no FAL. As a result, phase 2 will stress efforts to improve the register of companies with FAL, through validation, filter questions in other surveys, continued FAL surveys if necessary, and recommendations in DAM reports for support to institutions providing such information (company registrar offices, investment promotion agencies and statistics offices).

3.4.4. Tracking Systems for Monitoring Data Collection Progress

DFI has found it necessary to develop systems and spreadsheets for team management to track data collection progress. This covers issues relating to sample quality (how to prioritise by region, company size, sector, and source of sample data as relevant), dates for administration and collection of forms, interviews, data quality of returns for editing, checking and follow-up, and entry and checking of data into software. It is intended that these records are updated on weekly or fortnightly basis, with input from all regions, to help team management target priority areas for follow-up, and channel resources and adjust timetable accordingly. The review has indicated that these records should be submitted to DFI and ROs on a monthly basis to enable them to manage the overall work programme priorities.

3.4.5. Software Design and Coordination

To ensure effective transfer and ownership, DFI has created tailor-made software for data entry and analysis in the widely used and understood Access system, with supporting documentation, which can easily be adapted by the country to its own needs. The development process included input from developing country IT experts and extensive consultation with Bank of Tanzania, whose initial version of software was adapted into a generic user-friendly format. The generic software is flexible enough to be modified for use across different countries and types of data collection instruments (e.g. investment, aggregate debt, and perception data). In phase 2, DFI will make accelerated efforts to work with regional experts to adapt, operate and transfer the software to all countries.

This software is entirely complementary with the detailed debt recording software produced by the Commonwealth Secretariat (CS-DRMS) and UNCTAD (DMFAS). In phase 2, DFI and its regional partners will work even more closely with both organisations to ensure that, whenever countries decide to collect private sector debt data on a loan-by-loan basis, data are entered into these systems for analysis, the systems are modified as appropriate for country needs, and training is provided to countries on entry of private sector debt.

3.5. Analytical Findings and Priorities

3.5.1. Guidelines and Support for Analysis and Utilisation

Each country produces summary and more comprehensive country analytical reports. The programme assists countries to prepare this analysis with the maximum policy focus. It:

- helps countries to draw the key analytical conclusions from their data, by adapting the software to present more disaggregated presentation and analytical content (such as rates of return, volatility etc);
- prepares guidelines and outlines for preparing reports, which ensure that they:
 - cover all of the major analytical issues relating to balance of payments and other macroeconomic trends, investor perceptions and intentions; volatility and sustainability of private capital, and its contribution to national development;
 - relate data collection responses to lessons from other countries, to compare investment prospects with those of neighbouring countries, and to cross-check overall amounts of flows between countries;
 - compare data findings with wider policy-related country-specific and international literature, and with other sources of country economic data, to establish whether investor perceptions have objective support; and
 - draw all possible potential policy conclusions.
- comments in detail on various drafts of reports prepared by the country teams to further improve their content.

3.5.2. Policy Findings

The pilot programme has already produced fascinating and often surprising findings on the impact of foreign private capital on economic policy, including:

- much higher inflows, outflows and stocks of private capital than previously believed, with PCF making a major contribution to development in The Gambia, Ghana, Guyana, Malawi, Tanzania, Trinidad and Tobago, Uganda and Zambia.
- high rates of return being demanded on FDI, ranging from 10 to 20% including dividends and capital repatriation;
- FDI making up 80% of PCF, with stocks averaging 30% of GDP, and flows averaging 6%;
- large amounts of private sector external debt (as high as 25% of GDP) contracted either from parent companies with highly variable terms, or from other offshore sources with relatively high interest rates, and major concern about overindebtedness in specific sectors;
- flows going beyond expected natural resource-based sectors to manufacturing, finance, commerce and tourism, but with concentration of flows in sub-sectors and underinvestment in agriculture, implying the need to focus investment promotion in new sectors;
- remarkably diverse source countries, with large proportions from non-OECD (especially regional) investors and a considerable amount by residents using externally-held funds;
- very high confidence levels among existing investors in most countries, translating into on average 80% positive intentions for maintaining or expanding investment in future;
- the main factors encouraging investors are political and macroeconomic stability, improvements in infrastructure, and liberalised external sectors, while those discouraging it are remaining infrastructural problems, educational and health bottlenecks (notably HIV/AIDs), regional political developments, and financial sector problems (cost of and lack of access to local credit). Tax incentives are not seen as particularly important factors, but are costing governments large amounts of money;
- many aspects of government policy need refining, with investment promotion agencies needing to refocus their efforts, and economic policymakers needing to focus more on areas which are discouraging investors, and a nuanced approach to further external liberalisation.

3.5.3. Analytical Priorities for Phase 2

Countries are pleased by initial high response rates and confident that the private sector will respond more readily to data collection exercises in future as a result of growing partnership, allowing the basics of balance of payments and investor perception collection to be completed more easily. As a result, they have been suggesting five more areas for monitoring and analysis to enhance policymaking choices:

- even more focus on analysing the structure (debt/equity financing and maturity/terms), macroeconomic causes and effects of the capital flows, and their sustainability and volatility (as demonstrated in earlier projects), eventually integrating this methodology with the analysis of sustainability of official capital flows and debt relief which is already being conducted by Debt Relief International.
- refining investor perception surveys to focus mainly on the key policy areas which require action (notably tax revenue policy, infrastructure, education, health and the financial sector) and further specify policy measures.
- more detailed surveys of recipient sectors and regions or source countries (including the “true” source country where decisions are made – often not the country where the non-resident is registered), to explore why they are (or are not) major areas for mobilising private capital flows;
- more detailed and frequent loan-by-loan (and sector sustainability) analysis of private sector debt, to explore its motivations, terms and sustainability as part of the national debt burden;
- closer analysis of the contribution which the private sector is making to poverty reduction through technology and skills transfer, training, infrastructure creation, and corporate social and environmental responsibility (CSR) policies.

All of these areas will be gradually integrated into the methodology for phase 2, depending on the level of capacity demonstrated by the country for BOP and investor perception-related analysis, and taking into full account any other efforts to analyse such issues in the country and the wish not to overburden the private sector with excessively detailed questions.⁸

3.6. Advocacy, Awareness and Dissemination

3.6.1. Use of Data for Compliance with International Standards and Policymaking

The review has found that the pilot programme has helped participating countries to make important strides towards compliance with international standards. All countries are now complying with most GDDS standards, and exceeding some. More specifically, they are covering all components of BOP (GDDS) and IIP (an encouraged extension to GDDS). Several have been able to move from Balance of Payments Manual 4 to 5 in their reporting to the IMF as a result of the project, and some are collecting private sector debt loan-by-loan (going beyond GDDS). All have reached the GDDS minimum standard of annual data collection, but most intend to collect more frequently over the medium term. All had problems meeting GDDS timeliness guidelines (data to be collected 6-9 months after the end of the reference period), reflecting the timing and length of the first benchmark survey, but are aiming to meet the timeliness guidelines by the end of phase 2. Finally, all are meeting transparency and reporting guidelines by presenting data and analysis to all stakeholders, notably the private sector.

Countries have also indicated that they are already using data for policymaking purposes:

⁸ Some also wish to move forward by reconciling the data coming out of surveys with those of source countries and international institutions, and by conducting surveys in source countries to establish why other investors are not coming to their country. However, these steps are beyond the scope of this programme, so countries will be referred to other providers of assistance for these areas.

- The Government of Tanzania has restructured the Bank of Tanzania Research Department and expanded a division to manage the programme, and included completion of phase 2 of the programme and incorporation of its findings into national data series as a policy action in its agreements with the Bretton Woods Institutions.
- The Government of Uganda has created new units in Bank of Uganda and the Uganda Investment Authority to manage the programme, incorporate its findings into government data, revise its support for private sector debt sustainability, and provide advice to the private sector on sourcing foreign capital.
- The Governments of The Gambia and Malawi are incorporating the results of their phase 1 surveys into their BOP and national accounts data, and increasing staff levels.
- All phase 1 countries are analysing phase 1 data to make major changes to their balance of payments and national accounts series, with concomitant implications for external sector policies, and using data on source countries, recipient sectors/regions and investor perceptions to adjust their investment promotion policies.

However, the review has also found that (due to the dramatic improvements and changes in data compared to past estimates) some countries find it difficult to adjust their balance of payments data series and to convince international organisations to do likewise. As a result, phase 2 will place greater stress on ensuring that countries use the data collected for policymaking and GDDS/SDDS submissions, by providing them with greater training and advisory support wherever necessary to map the new data onto existing data, and by ensuring that upfront country policymaker commitments to use the data are in the National Task Force agreement. All country missions and workshops will also pay even greater attention to assuring the participation of or meetings with all senior policymakers in the country to increase their awareness of project findings and their commitment to its utilisation for policy purposes.

3.6.2. Assistance with Dissemination and Advocacy

The programme also takes responsibility for helping the country to disseminate the analytical findings to the widest possible audience (while of course preserving the confidentiality of individual responses). This already occurs by countries distributing such studies to an average of 400 private and public sector leaders at the end of their individual projects. They are also publicised through DFI and regional organisation newsletters and websites, and international workshops (those organised through the programme and those held by other organisations).

This dissemination and advocacy will be widened in phase 2 by the publication of country studies and overall multi-country analysis reports, and their distribution to international and academic organisations, donors and major investors. Countries will also distribute such studies through their investment promotion offices and central banks, and in wider fora for public-private sector dialogue. Senior policymakers will also be invited to attend the final day of the international seminar(s), and efforts will be made to advocate policy findings more strongly through existing regional fora run by regional partners and other regional organisations such as COMESA, EAC, SADC, UEMOA and WAMI. As a result, the conclusions will feed into analysis by international and regional organisations, donors and potential investors, on how to promote stable and development-oriented private capital flows.

3.6.3. International Seminars

One key advocacy and dissemination forum will be a 1-week international seminar (of which 1 or 2 will be held during the life of the programme, depending on funding availability) for leading officials from country NTFs, regional partners, countries applying to join the programme, and international experts. This will spend 1.5 days each on methodology (reviewing lessons and

planning improvements) and analytical findings (presenting conclusions and defining future priorities). It will benefit from input by international experts and organisations such as the BIS, Commonwealth Secretariat, IMF, OECD, UNCTAD and the World Bank, as well as by independent analysts and countries which have acknowledged expertise on these issues. It will also provide a forum for information exchange with other regional organisations such as COMESA, EAC, SADC, UEMOA and WAMI). The final two days will be spent planning country priorities for the following year of work, and presenting conclusions to senior policymakers from the participating countries in a 1-day conference.

As a result, the seminar will:

- provide country input into work plans of the programme;
- input information to countries on the latest international best practices in monitoring and analysis techniques, including international and regional organisations;
- exchange country experiences and learn lessons for future methodology and analysis;
- allow time for detailed discussions between the implementing partners, donors and individual countries on progress, problems and action plans for next steps; and
- provide a forum for advocating the data findings and policy conclusions of the country projects to senior policymakers and the international community.

In addition, the project will encourage maximum participation by officials of countries which are beginning the process, as observers in workshops for more advanced countries, so as to demonstrate to them how data collection and analysis work.

3.6.4. Information and Knowledge Products

There will be four main vehicles for information and knowledge exchange among participating countries (all of which will wherever possible be available in English, French, Spanish and Portuguese to widen their circulation):

- reports on progress, the conclusions of individual country projects and the international workshop, and summaries of publications, will appear in the quarterly HIPC-CBP/FPC-CBP newsletter and those of regional partners, which between them reach more than 5000 officials of governments, civil society and donor and international organisations in 55 countries;
- approximately 2-3 publications a year (depending on funding availability) will be produced based on country reports, major new advances in methodology and cross-country studies, in cooperation with regional partners and experts. These are distributed to over 500 officials in 55 countries (targeted for their interest in the subject area), as well as donors, international organisations, CSOs and the private sector.
- training materials, country and overall reports and publications, will be made available on the DRI/DFI website and through the websites of regional partners, which will also link to all other relevant international websites. All new developments will be disseminated through proactive listserves in order to maximise usage.
- information and modules on private capital flows and private sector debt may (subject to funding availability) be offered as part of a pilot distance learning programme being run by the HIPC Capacity-Building Programme, which will allow individual officials to be trained as enumerators and supervisors for data collection, and as analysts of private capital flows, via supervised tailored training available immediately from the web. This programme will reduce the need for refresher training events and overcome rigidities inherent in workshop-based training, and will cooperate to the maximum possible with other international distance learning programmes in order to maximise synergy in use of facilities and networks.

IV. INSTITUTIONAL STRUCTURE, REPORTING AND REVIEW

4.1. Governance Structures

The main governance structure for the programme will be two-stage meetings held semi-annually at the same time as (and with a similar structure to) the HIPC-CBP Steering Committee meetings. The first stage of these meetings will be among the implementing partners, to discuss detailed planning of work programmes, information products and new methodologies. Following these meetings, all policy issues will be discussed with implementing partners, representatives of participating countries and the funding donors. ROs will invite country representatives. To ensure continuity, rotation of country/person will not be more than once per annum.

Appropriate senior officers will represent DFI, RO's, donors and participating countries. The structure of the Steering Committee meetings will be as follows:

- HIPC Consultative Meetings (day 1),
- HIPC Policy Meetings (day 2 & 3),
- Work Programme Planning (day 3 & 4), and
- PCF Meetings (day 5).

Draft agendas including the list of necessary documents will be prepared by DFI and the hosting RO, at least one month in advance. Thereafter, partners would agree chairmanships of sessions. Final documentation should be circulated at least 2 weeks in advance. The hosting RO would be responsible for the minutes of the meeting. The first draft should be circulated 2 weeks after the meeting, another 2 weeks should be allowed for partner comments, and a further 2 weeks for incorporation of comments.

In addition, as necessary, implementing partners and donors will hold discussions at the international seminars, and will meet at one another's headquarters to improve cooperation and liaison and discuss progress in implementing memoranda of understanding on transfer.

Between meetings, DFI and its regional partners will be in constant electronic contact on programme management, and will submit semi-annual reports to donors on country and regional transfer progress and on expenditures, as the basis for approval of work programmes and disbursements.

The programme will also make maximum effort to coordinate with international organisations and other regional organisations which are closely involved in policy coordination and promotion of private capital flows to their regions. These organisations may provide information on analytical, methodological and regional political priorities, and report on their own technical assistance programmes and projects, during the annual conference. The international organisations will include the Commonwealth Secretariat, IMF, OECD, UNCTAD and World Bank; and the regional organisations will include COMESA, EAC, SADC, UEMOA and WAMI. In particular, an annual consultation by DFI and ROs, with the Bretton Woods Institutions will maximise their advisory input. Interested participating donors could also partake in these consultations, but will have to use own funds.

4.2. Executing Structures: DFI, Regional Partners and Resource-Persons

The structure of the programme will be highly cost effective, with a small technical office supplemented by the staff of regional organisations undertaking coordination and development of

resource materials, and most of the field workload being undertaken by a pool of resource-persons drawing on government staff and private sector consultants.

The DFI technical office will draw on 20% of the time of the DRI/DFI Director, Matthew Martin, who will be responsible for high-level liaison and programme direction. In view of the expansion in workload in phase 2, he will be supported by two Programme Managers (responsible for day-to-day management and development of methodology, and for leading most in-country interventions), one of whom (depending on the number of participating countries) will be employed for only the first 15 months. In addition, 1.5-2 Administrators (depending on the number of participating countries) will be responsible for organising training and DFI contributions to information products. For at least the first 18 months of the programme, a Researcher will also provide assistance in long-distance support checking country tools, databases and analysis; and collecting information on international best practices to further develop methodology. DFI will also receive support from DFI/DRI staff responsible for workshop organisation in French and Spanish, information products, travel organisation, database and IT maintenance, and financial management.

Each of the regional organisations will nominate 1 professional staff member (whose time will be fully funded by the programme if 4 member states participate in the programme), 1 administrator and 1 finance officer to be the principal liaisons with the project. The organisations will gradually assume responsibility for coordinating interventions in their region so that, by the end of phase 2, they will be in a position to assume responsibility for all basic training functions as well as playing a major role in producing information products and running the programme governance structures.

The pilot project is already working with a pool of 20 developing country experts as consultants for the implementation of training workshops and missions. All of these come from developing countries. Some countries (such as Jamaica, Namibia, the Philippines, Trinidad and Tobago, and Zimbabwe) were more advanced in monitoring and analysis before the DFI programme. Other experts have been trained during the DFI programme. These include staff from regional partner organisations (CEMLA, MEFMI, WAIFEM) and staff from countries with considerable expertise at the start of the pilot project, such as Tanzania, Malawi and Uganda. DFI has trained them as trainers, and they are helping to build capacity in other countries, and sharing their experiences to enhance regional cooperation. In phase 2, training for trainers events will dramatically expand this pool of regional experts to at least 35 so that, at the end of the phase, experts in each region will be able to implement training interventions with international support limited to updates on international best practices.

4.3. Monitoring, Reporting and Evaluation

4.3.1. Country Project and International Workshop Reporting

DFI, regional organisations and national officials will compile the following reports to central and local offices of donors:

1. Reports on demand assessment missions and outline of country project design;
2. Reports on initial awareness/training workshops and final country project design;
3. Reports on support missions to assist data collection and analysis;
4. Reports on closing workshops and proposals for increasing sustainability;
5. Country-authored Analytical Reports of Project Findings.
6. Report on Findings of International Workshops, training for trainers workshops and regional workshops with BCEAO/BEAC and CEMLA.

To ensure the highest quality input and output, DFI has designed various evaluation tools. These include detailed workshop evaluation questionnaires for both participants and resource people, and questionnaires to the private sector on how best to improve the methodology and on their experiences of participating in the country projects.

Reporting will focus particularly on liaison with local representatives of donors during workshops and missions, to assure coherence with wider country programme priorities. In addition, all training and assistance materials will be made available to local representatives of donors at the time of workshops and missions. Donors will also receive copies of newsletters and publications, and access to the DFI website and distance learning network.

4.3.2. Programme Reporting and Evaluation

As part of the governance structure, DFI and its regional partners will also submit to donors and participating countries a semi-annual progress report and projected work programmes and budgets to justify further disbursements.

This report will include a section on the results of the comprehensive evaluation methodology which has been developed for the programme (Annex E), through which all parties will be able to assess country progress in all technical aspects of monitoring and analysing private capital flows, and the sustainability of programme achievements. This covers institutional and legal frameworks (including coordination with other statistical and analytical initiatives), human resources, management and working environment, conduct of surveys, non-survey reporting mechanisms, recording and compilation of data, capacity to meet international codes and standards, capacity for basic FPC analysis, capacity for advanced analysis, capacity to design an overall development financing strategy, political commitment to policy and data changes, and transparent evaluation and control mechanisms. The programme implementing partners will also develop by mid-2004 a similar methodology for assessing implementing partner capacity to manage the programme. As in the HIPC CBP, these evaluation methodologies will be designed in cooperation with the regional organisations and will then be implemented by the countries and quality-controlled by the regional organisations and DFI as a participatory tool designed to encourage them to recognise areas which require further reinforcement.

In addition to this detailed self-evaluation methodology, the programme will be evaluated by an independent review team beginning mid-2005. It will also benefit from the conclusions of a financial sustainability review of the HIPC Capital Capacity Building Programme, which will be conducted in 2003, as well as other independent reviews of regional partner organisations' capacity-building programmes.

V. RISKS/ASSUMPTIONS and KEY MEASURES TO ENSURE SUSTAINABILITY

5.1. Risks to/Assumptions Underlying Medium-Term Sustainability

The goal of the project will be that, by end-June 2006, the maximum number of countries which request assistance from the programme will have developed fully sustainable independent capacity to monitor and analyse private capital, with sustainable institutional structures and local financing sources.

The project logical framework (Annex A) shows the key assumption which is crucial to this goal: that improving the management of private capital flows is a priority for promoting sustainable pro-poor development in developing countries.

At the level of the project purposes, the development of country and regional capacity, and especially the raising of awareness, are dependent on national political commitment and support for policy changes and actions recommended, and the acceptance by the international financial institutions of the data and policy findings from the programme.

In order to ensure that the outputs meet their desired purposes, the assumptions at the level of national capacity building include the availability of qualified, motivated and committed staff; political commitment and willingness to adopt and maintain policy or institutional reinforcement; sufficient financial commitment by the countries to funding the projects; and the absence of civil strife or other conflict. It is also necessary to ensure that basic BOP statistics courses will be delivered by other RO and non-RO programmes; and that there is sufficient action by other technical assistance, notably those such as the Commonwealth Secretariat and UNCTAD which supply private sector debt recording software to the countries.

Regional capacity reinforcement will depend on availability and retention of key staff in the regional centres of excellence, on IFIs and donors coordinating related assistance in cooperation through the ROs; on adequate financial reporting and control by the ROs; and on their long-term financial sustainability.

The success in raising awareness will depend on the degree to which the issues raised in the project findings are of sufficient interest and importance to attract the attention of the media, policymakers and private sector leaders.

The main risk to the programme is staff turnover, at policymaker, management or lower levels. At the level of policymakers, changing priorities for a new government or chief executive of an institution in an NTF can require re-sensitisation about the priority of this area of work. At a management level, staff turnover (typically following a change of government or chief executive) can disrupt communication within the NTF and project implementation. At a staff level turnover can mean loss of implementation capacity.

However, the project has identified several ways to minimise staff turnover and disruption:

- the memorandum of understanding signed among participating institutions in each country commits them to certain tasks and staffing levels.
- those participating institutions (central banks, investment agencies, stock exchanges) with good working conditions are being encouraged to reform institutional structures and promote staff within their existing jobs rather than moving them to other departments. Other agencies are committing to overtime payments in order to retain key staff.
- Sensitisation at the level of chief executives to the importance of this work leads them to give this work priority and retain key staff.

- The successful conclusion of each survey and its demonstrated impact on government policy motivates staff to stay in their posts.
- The growing employment of regional experts to assist other countries motivates them to stay in their positions.

Of course, all of these measures need to be taken within the context of wider institutional reinforcement and agreement on national statistical and analytical priorities, to ensure balanced capacity-building across government. Used successfully, they have reduced staff turnover to less than 10% on average during 2 years (and even this has mainly reflected promotion within government agencies). Turnover will also be offset by continuing to: 1) train as many staff as possible in order to widen competence and institutional memory; 2) provide refresher training and (funding permitting) distance learning materials to allow immediate training of new staff; and 3) transferring more responsibility for timing and execution of training to the NTFs.

However, it is also important to note that the low-case funding and implementation scenario, and conditions placed on Swiss government funding, involve a considerable reduction in training for trainers, inter-regional information exchange and staff time coverage in the Technical Office and ROs. This could also pose major risks to programme sustainability. More funding will certainly need to be mobilised, and spending and staffing needs kept under close review, to ensure that the programme achieves its goals sustainably.

Nevertheless, it is possible that some existing participating countries may require continued support beyond June 2006, if the assumptions and measures to offset risks described above are not fully successful. In addition, additional countries may wish to receive assistance after that date. However, the aim will be to ensure that virtually all of this support should be provided by regional organisations to their member states, and through inter-country exchange of expertise, with therefore a vastly reduced demand on donor resources. Thus the main strategy to ensure medium-term sustainability is transfer to regional experts and organisations.

5.2. Transfer to Countries, Regional Experts and Partner Organisations

As described in 4.2, the key means to ensure sustainability of capacity will be transfer of programme execution to countries, regional experts and to regional partner organisations.

5.2.1. Countries

As described in the project purposes, the fundamental aim of the project is to create capacity in individual countries to implement programme methodology. As a result, DFI and its regional partners will encourage to the maximum degree decentralisation to the countries themselves. Already during the pilot phase, country officials are conducting refresher training for new staff and tailoring survey forms, enumerator manuals, software and analytical reports to their own priorities. The review has highly praised this aspect of programme methodology as providing assistance through “learning by doing”. As it has urged, the programme will accelerated these efforts in phase 2, through (funding allowing) 1-2 training for trainers workshops, and the gradual development of distance learning procedures. It will also accelerate transfer to country teams of workshop administration and finance responsibilities wherever possible.

5.2.2. Regional Experts

In the pilot phase, DFI has made intensive efforts to develop skills in monitoring, analysis, training and country support missions among experts from developing countries, in order to improve prospects for transfer to regional expertise. In only 15 months it has developed a pool of 20 regional experts who are capable of training colleagues in their own and other countries on

virtually all aspects of programme methodology. These efforts will be further accelerated in phase 2 with the holding of 3-4 formal training for trainers' workshops at which skills will be honed and methodology refined, and through attachments of officials to DFI, regional partner organisations or other countries in order to develop new aspects of methodology. Such methods have proved highly successful in developing regional capacity in the HIPC-CBP.

5.2.3. Regional Organisations

DFI's sister organisation, Debt Relief International, has for several years been working with regional organisations owned and run by developing countries, decentralising to them responsibility for country assistance, training and methodology in the HIPC-CBP. The institutions involved are:

- 1) **Francophone Africa:** the joint training programmes run by Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the Banque des Etats de l'Afrique Centrale (BEAC)⁹
- 2) **Anglophone Eastern and Southern Africa:** the Macro-Economic and Financial Management Institute of Eastern and Southern Africa (MEFMI)¹⁰
- 3) **Anglophone West Africa:** the West African Institute for Financial and Economic Management (WAIFEM)¹¹
- 4) **Latin America:** the Centro de Estudios Monetarios Latinamericanos (CEMLA).¹²

All of these institutions have or are in the process of building excellent reputations as training and capacity-building organisations, and have similar training partnerships with the Bank of England, Commonwealth Secretariat, IMF, UNCTAD, UNITAR, UNDP, World Bank and many other regional, international and OECD government organisations. They are part-funded by contributions of money and in kind from their member states, and part by donors.

This transfer has typically occurred in two stages:

- Stage 1 – signature of a memorandum of understanding, covering a medium-term period in which the capacity of the regional organisation and experts from its member states are built to the point where they can assume responsibility for country assistance and training.
- Stage 2 – gradual handover of responsibility for programme governance, information-sharing and all other functions to the regional organisations.

In the pilot phase of the Foreign Private Capital programme, in spite of maximum efforts at joint cooperation, it has been hard to decentralise the programme formally to regional organisations (ROs) as far or as fast as DFI or regional organisations would have desired, because it was impossible to commit to a medium-term programme. Nevertheless, DFI has been working closely with the three regional organisations which cover the countries involved in Phase 1 (CEMLA for Guyana and Trinidad and Tobago; MEFMI for Malawi, Tanzania, Uganda and Zambia; and WAIFEM for The Gambia and Ghana). It has met the heads of the regional organisations and their senior staff in order to agree modalities of cooperation and jointly endorsed methodologies; worked with their secretariat staff who have represented them and

⁹ These cover the 14 member states of the Franc Zone.

¹⁰ MEFMI members are Angola, Botswana, Kenya, Lesotho, Malawi, Namibia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

¹¹ Members of WAIFEM are The Gambia, Ghana, Liberia, Nigeria and Sierra Leone.

¹² The members of this Institute are 30 countries of Latin America and the Caribbean.

acted as resource-persons in many workshops and missions; and given them a prominent role in the international workshop.

In phase 2, the programme will copy more closely the HIPC-CBP model to ensure decentralisation of the programme over a defined period. As recommended by the review, those ROs which are already participating in the programme (CEMLA, MEFMI and WAIFEM) will be actively involved in a joint project management structure from the start; have a clear programme and timeframe for transferring functions to them defined in a memorandum of understanding and subject to the semi-annual evaluations of implementing partner capacity; receive comprehensive training of nominated staff members where necessary in technical issues, project supervision and administration; conduct joint missions/workshops with DFI; and gain early access to DFI's networks of international and regional experts. In addition, based on demand from the regional organisations, pilot efforts will be made to explore prospects for tailoring the programme methodology to the needs of additional countries and exchanging best practices more widely in Latin America and Francophone Africa through 1 regional workshop in each region, held respectively with BCEAO and CEMLA, and by working more intensively with Swiss focus countries in each region – Burkina Faso and Bolivia respectively.

In other words, at the start of the programme, DFI has defined for itself an “exit strategy” to ensure that developing countries do not continue to depend on its assistance. It is envisaged that decentralisation would begin with the signature of memoranda of understanding in 2003, relating to transfer of responsibilities for country assistance and training by mid-2006, subject of course to continuing evaluation of the capacities of ROs. Transfer of information products and governance structure would also be targeted during phase 2 as defined more clearly in the project logframe (see Annex A). The interregional workshop in 2005 and the review of the programme starting in mid-2005 will provide the fora for drawing up plans and project documents for activities by countries and supporting institutions after the end of phase 2 (the financial sustainability review will already have examined these aspects), which will then be discussed by the Steering Committee at its meeting in the second half of 2005.

VI. FINANCING NEEDS, PROCEDURES AND SOURCES

6.1. Budget

The budget scenarios for the programme are presented in Annex F. Table 1 summarises the two scenarios being considered, in US\$.

Scenario 1 is based on reliable indications of financial commitments received from donors, which currently total US\$4,338,401. Adding in substantial financial contributions by participating countries, total funding for the programme in this scenario reaches a total of US\$5,396,513 for the three year period covering 1 January 2003-31 December 2005.

Scenario 2 is based on the budget, which is believed by donors and implementing partners to be necessary to the long-term sustainability of the programme. This would include US\$6,838,401 of donor funds and US\$1,251,321 of country contributions.

The extra funds provided in Scenario 2 would allow the following additions to programme work:

- Intensive assistance for 5 additional countries.

- One more interregional workshop to share multi-country methodological/analytical lessons.
- Expansion of the training for trainers programme to allow a regional training for trainers event for CEMLA and one on the data analysis software, and the separation of MEFMI and WAIFEM region training for trainers events into two workshops.
- Representation for all ROs in annual BWI consultations.
- Increased numbers of publications reporting the findings of the programme.
- Higher allowance for software development and adaptation to country needs.
- The inclusion of a pilot distance learning programme through which countries would be able to train new officials without depending on workshops.
- Limited flexibility to cover additional staff costs for DFI and regional partners.

As with the work programme, the budget is obviously indicative and precise expenditure will depend on the progress of individual country projects within the programme.

The core expenditure of the project is on support to individual countries. It assumes that the cost of a full data collection exercise in year 1 (benchmark survey + non-survey) is approximately UK£160,000 and that in subsequent years (sample survey + non-survey) is UK£100,000.

It also assumes a rapidly increasing level of financial contributions from participating countries:

For the budgeted **9** baseline scenario countries:-

- That of the existing 7 countries from GROUP 1 which were members of the programme in the first phase and which wish to continue to receive support in phase 2, only **5** (Ghana, Malawi, Tanzania, Trinidad & Tobago and Uganda) will continue to receive support from the core funding provided by donors, but with rapidly falling external contributions (from the current programmed average of 90% to 75% in year 2, 50% in year 3 and 25% in year 4) and a lower budget for smaller-scale sample surveys;
- That **2** (Bolivia & Burkina Faso) of the 5 new countries from GROUPS 2-3 joining the programme contribute 10% of funding in year 1, and thereafter increase their contributions each year, reducing donor contributions to 75% in year 2 and 50% in year 3;
- The next **2** countries from GROUP 2 (Kenya & Mozambique) will be expected to contribute exactly the same target percentages as Bolivia & Burkina Faso. As with other countries, local donor funding is being sought and on the basis of indications, Kenya and Mozambique have been included in the baseline budget scenario. As with The Gambia & Zambia (below) this financing must cover in-country implementation as well as wider participation in the programme.

For the maximum number of countries (**14**) under the high case scenario -

- The above-mentioned **9** countries, and;
- The **2** (The Gambia, and Zambia) countries from GROUP 1 not scheduled to receive support from the programme, but who participated in the first Phase;
- The **1** remaining country from GROUP 2 (Lesotho);
- **2** other countries from GROUPS 4-5.
- These countries will only be able to participate in the programme if funding is provided from other sources, such as local Donor offices. Any financing made available must cover direct in-country implementation as well as participation in the wider programme (i.e. regional and interregional workshops etc.). These countries will be encouraged to match the planned

contribution levels being applied to the 5 countries, detailed above, being funded directly by the programme.

As a result, donor-funding needs beyond this phase should be much lower by the end of phase 2, though those joining during 2003-04 may require more substantial continuing funding.

If countries progress even faster to sustainable implementation with lower need for external support or funding, or donors provide more core or country-specific funding, this could allow the programme to include a wider range of new countries. However, the key focus will be on ensuring that around half of the participating countries reach sustainable capacity.

Other programme implementation costs are based on the following assumptions:

- International, Regional and National Workshop, Country Project and Support Mission costs are based on recent experience in the DFI pilot programme. The international workshop will be held in a project country chosen for low costs and ease of flight access.
- Training for Trainers costs are based on the HIPC-CBP debt strategy programme. In order to limit costs it has been decided that the Training for Trainers event for the MEFMI & WAIFEM region will be combined into one workshop.
- Software development costs are to cover continued tailoring of software to country needs as they change their analytical and data-gathering priorities, and also cover training of country staff in how to reprogramme the software so as to ensure its sustainability beyond phase 2.
- Information product costs (newsletter, publications and website) are precise costs for each edition of newsletter and the publication series as well as amendments/additions to website, based on experience in the HIPC-CBP.
- All costs also adhere strictly to the standard terms and conditions for consultants described in Annex G, which have been agreed by all donors for the HIPC-CBP and the DFI pilot programme. A more detailed financial procedures manual will be agreed by partners and donors during the first semester of 2004.

Table 2 of Annex F shows staff and other specified support costs for the DFI Technical Office and its implementing regional partners. These are also based on recent pilot programme and project experience, discussions with SECO and DFID and on the HIPC-CBP:

- Staff costs are based on the following: thirty annual working days of the Director's time; ceilings for Programme Managers, Administrators and the Researcher based on competitive salary levels for good international personnel, with recruitment costs including advertising and where appropriate relocation from developing countries. They also include contributions to the time of DFI group staff responsible for information products, communications databases etc. As outlined on the budget the costs related to the time spent by the Programme Managers and the Researcher on direct-country support has been taken to a separate budget line called 'Country Technical Support Costs'. The percentage amounts applied for this adjustment are shown on the table. This adjustment was made to ensure that the balance between costs incurred in general running and management of the programme were separated from the actual implementation costs.
- Office/premises running costs, communications etc are all ceilings and based on the pilot programme costs. Office costs are a proportion of the total DFI Group costs. Equipment has been kept to a minimum necessary to support the additional staff.
- Other travel costs cover local travel for liaison with DFID and other UK-based experts.
- Accounting and auditing charges cover allocation for the time of the DFI Group accountants and auditors, as well as separate charges for the auditing of this specific programme.
- Bank charges are based on recent experience.

- As has been the case in recent years with the HIPC-CBP and DFI pilot programme, all costs, which are a proportion of overall DFI group costs are accounted for separately and transparently to donors.

Table 2 also indicates the costs for overheads for the regional partner organisations implementing the programme. As outlined on the baseline scenario table, total overhead costs allocated to each implementing partner is US\$136,500 for MEFMI, US\$64,814 for WAIFEM and US\$44,500 for CEMLA. However, as with the DFI London Staff Costs an adjustment is required to account for the regional partner organisation staff time directly attributable to the countries to the new Country Technical Support Costs budget line. As with the DFI London adjustments to percentages applied are shown on the table. Following this adjustment, the net amount charged directly to Overheads is US\$54,600 for MEFMI, US\$25,926 for WAIFEM and US\$17,800 for CEMLA. These figures are based on the equivalent of recruiting one programme officer for MEFMI and the equivalent to 50% of a programme officer for WAIFEM & CEMLA to supervise the programme implementation in the regional organisation's member states. As outlined in the logframe this allocation is made on the assumption that for every 4 countries participating in the programme 1 technical level member of staff will be required. It is also envisaged that, as the decentralisation of the programme progresses, DFI will move to disbursing funds to regional organisations on a semi-annual basis in advance for the implementation of country programmes.

6.2. Financing Procedures, Sources and Mechanisms

The period for spending DFI funds for phase 1 work on private capital flows has been extended to early 2003, to enable continuing support to existing country projects. Thereafter disbursements of phase 2 funding will begin.

During phase 2, disbursements will take place on the same basis as all donors already apply in the HIPC-CBP programme, on a semi-annual basis in advance, following submission of progress reports on work completed and based on a projected work programme and budget. Without such advance disbursements the programme cannot function properly as DFI (a non-profit organisation) has no reserves to spend pending reimbursement. The advance funding will also include a component of advance funding of country-specific projects in case local donor offices are unable to operate on an advance disbursement basis.

The bulk of the funding will, as in the HIPC-CBP programme, be pooled into a multi-country budget for administrative and reporting simplicity – though donors will receive reports on substantive and financial progress of individual country projects. Within this pool, donors will have the flexibility to refuse as a group to fund a particular country's application to join the programme, on grounds such as international sanctions; or to refuse as an individual donor to fund a specific country's project for reasons related to bilateral political relations.

However, as necessary to fill the overall funding need, a considerable proportion of funding will be provided through donor in-country offices, as has been the case in the pilot phase (where DFID country offices are funding projects in Ghana and Tanzania, Sida Dar es Salaam is funding Tanzania, and SECO country programmes are funding Tanzania and Uganda). In many cases, such funding may be restricted to covering the local implementation costs of the project, in which case the National Task Force will normally receive the money and will account for it direct to local donor offices. If such funding is channelled via DFI and its partners, they will account for the expenditures. Nevertheless, in order to provide donors with a comprehensive picture of the

programme execution and expenditures, all such decentralised funding will be included in the semi-annual financial reports by DFI and its partners.

During phase 2, DFI and donors will make maximum effort to bring countries to the point where they can implement data collection and analysis with minimal donor assistance, with a dramatically declining funding burden for individual countries. DFI countries already cover an important share of costs, averaging around 20%. In phase 2, all countries will be encouraged to make a contribution of at least 10% to country project costs in the first year, rising sharply thereafter as described in 6.1 above. This will allow participating countries to provide around US\$1 million, enough to cover 40% of the costs of country-specific interventions by the end of phase 2. Early indications are that countries are exceeding this commitment, with current programme countries' contributions averaging 42% for 2002/03.

