

HIPC DEBT STRATEGY

The Newsletter of the HIPC Debt Strategy
and Analysis Capacity Building Programme



Debt Relief International

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BWIs REPLY TO MINISTERS AS SPRING MEETINGS MAKE LITTLE PROGRESS

In the last edition of this newsletter, we printed the latest declaration by HIPC Finance Ministers and the covering letter that was sent to international organisations. This letter has become the start of a dialogue, generating a joint response from the Bretton Woods Institutions that is printed below. HIPC Ministers look forward to continuing this dialogue with BWI officials at the forthcoming CBP Steering Committee meeting in London, and at the Annual Meetings of the BWIs in September.

Before the Spring Meetings, the BWI Boards discussed papers on the progress of the Enhanced HIPC Initiative, the Achievement of Long-Term Debt Sustainability, and External Debt Management in HIPCs.

The first paper demonstrated the severe problems being faced by HIPCs in mobilising the participation of all creditors in the Initiative, the slowing of progress to decision and completion points due in considerably part to track record interruptions and to a lesser extent to PRSP delays, and the potential higher costs caused by the need for 'topping-up' many countries' relief at completion point due to commodity price falls.

The second highlighted the long-term vulnerability of HIPCs to export and budget revenue shortfalls, as well as other external shocks, the fact that an estimated 10 of 20 HIPCs will be unsustainable again when they reach their completion points, and the need for much larger amounts of concessional loans and grants if HIPCs are to reach the Millennium Development Goals without compromising their debt sustainability.

The third provided a comprehensive assessment of the status of external debt management in HIPC countries, based on a questionnaire into which the CBP's implementing partners had a major input, as well as an overview of international efforts in capacity-building in debt management, including those of the CBP partners. It indicated the need to accelerate efforts at capacity-building as a key measure to avoid renewed debt unsustainability.

All of these issues echo the concerns expressed by HIPC Ministers in March. However, Ministers have been disappointed that relatively few concrete measures to combat the problems have been introduced. While the BWI Boards and the IMFC and Development Committee stressed the need to bring the remaining countries to decision points and completion points rapidly, they agreed to keep in place except in exceptional circumstances the requirement for 1 year of PRSP implementation before completion point, and introduced a new requirement that any country with more than six months off track with its PRGF would have to be back on track for 6 months before it could reach completion point. They also urged the BWIs to take more account of downside risks in the projections of growth and exports contained in debt sustainability analyses, and stressed the need to monitor HIPC debt indicators before and after completion points, to enhance debt management in HIPCs, and to make further progress in streamlining BWI conditionality. Ministers also called for a comprehensive review of debt sustainability to be produced for the Annual Meetings. On creditor non-participation, the Fund and Bank agreed to step up discussions with non-Paris Club creditor governments through all channels, to encourage HIPCs to establish escrow accounts to pay these creditors once a debt relief agreement is reached, and to highlight these issues in

their HIPC Initiative progress reports. BWI staff are also making increased efforts to monitor debt sustainability after completion points, to analyse domestic debt indicators for HIPCs, and to coordinate provision of debt management assistance to HIPCs.

However, to HIPC Ministers, these measures seem inadequate to the scale and urgency of the problem. They appreciate the continuing efforts being made by the international community to provide debt relief and concessional finance, and the streamline conditionality. Yet they believe that the current situation in which many HIPCs find themselves (with an estimated 20 of 24 likely to be unsustainable in reality at the completion point if creditors continue to refuse to participate, at least 12 being sued by various creditors for full recovery of their debt, and many with financing falling way short of their needs to meet the Millennium Development Goals) requires far more rapid and dramatic action if world poverty is to stand a chance of being halved by 2015.

In addition, they are worried by some developments at a country level, which indicate very limited scope for additional debt relief at the completion point to provide genuine long-term debt sustainability. Recent BWI Board considerations of Burkina Faso and Mauritania have indicated that the Boards are content to leave both countries in situations where their debt/export ratios become unsustainable after completion point (for 16 years and 4 years respectively) due to new borrowing to fund poverty reduction, and low export growth.

HIPC Ministers hope that there may be more progress on these issues in the G8 Summit in Canada and during the build-up to the IMF/World Bank Annual Meetings in September.



April 19, 2002

Honorable Friday A. Jumbe
Minister of Finance and
Economic Planning
Chairman of the HIPC Finance Ministers' Network
Ministry of Finance
P.O. Box 30049
Lilongwe 3
MALAWI

Dear Mr. Minister:

Thank you very much for your timely letter, and for your leadership of the important work carried out by the HIPC Finance Ministers' Network. Your letter raises issues which are central to the success of the HIPC Initiative and to the achievement of sustained economic growth and poverty reduction in HIPC countries. Indeed, these are challenges to which we have devoted significant attention in recent months, and which we have placed prominently on the agenda for this weekend's meetings.

Like you, we believe that full participation of all HIPC Creditors is essential to the successful implementation of the initiative, and to achieving a lasting exit for the HIPC countries from unsustainable debt. As you know, the Fund and the World Bank have been vocal and candid, both directly with creditors and in public, on this sensitive but critical issue. We speak with creditor representatives during Annual/Spring Meetings, and we have even published in recent HIPC Initiative status reports the names of official bilateral creditors that have yet to agree to participate in the Initiative. These efforts rely primarily on moral suasion, as the Bretton Woods institutions' decisions on the HIPC Initiative are not binding on creditors. Nevertheless, we take every opportunity to encourage creditors to provide their share of debt relief, and have placed at their disposal whatever technical assistance we can provide which may be useful in facilitating such a decision.

In this context, we are deeply concerned about repeated attempts by some official bilateral creditors to sell their claims on HIPC countries to the secondary market with attendant risk of litigation. In some cases, when the staff have discovered that creditors were attempting to sell claims, they have discouraged the creditors involved from selling their claims, and encouraged them to provide their share of the HIPC relief to the debtors as done by other creditors. We have also written to the creditor country authorities, urging them not to sell their claims.

Turning to the issue of debt sustainability and external shocks, the recent global slowdown, coupled with a significant decline in primary commodity prices, has weakened HIPC countries' growth and export performance over the past two years and led to a deterioration of external debt indicators for many of them. Achieving long-term debt sustainability requires concerted and sustained efforts by the HIPC countries, their creditors and the international community at large. The Enhanced HIPC Initiative is making an important contribution toward the attainment of a sustainable external debt position by HIPC countries. With respect to whether the Initiative is adequately taking into account the impact of exogenous factors such as commodity price declines, we believe that we are taking advantages of the flexibility provided under the enhanced framework to respond to such factors, for example, in the recent topping-up of debt relief for Burkina Faso.

However, as we have always agreed, debt relief alone, even if it were to be increased, cannot guarantee that a country will not fall back to unsustainable levels of debt, nor does it deal directly with a country's vulnerability to future exogenous shocks. The achievements of long-term debt sustainability will require continued policy reforms aimed at accelerating growth and diversifying the export base, strengthened external debt management by the HIPC countries, improved access to world markets, and adequate external financing on appropriate terms. In this regard, both the Fund and the Bank have increased the volume of concessional support to world income countries during the last year to help them deal with the worsened international economic environment.

On streamlining conditionality, as you know, both institutions have been embarked on a review of program design of conditionality with a view to enhancing ownership through streamlined and focused conditionality. The PRGF review shows substantial progress in streamlining in these programs, with the number of conditions falling by 30 percent (compared to earlier ESAF-supported programs) and those outside the Fund's core area of expertise falling by 60 percent. Bank conditionality has also been streamlined significantly, and remains a key area of continuing review. Overall, the PRSP is to engender more streamlined conditionality through continued improvement in donor coordination, including Fund-Bank collaboration on country programs. However, it is also clear that critical measures in the country's reform program should continue to be monitored and reinforced through conditionality. Moreover, the precise number of conditions in Fund- and Bank-supported programs is necessarily country-specific and needs to be guided by the economic situation in the country and its overall poverty reduction strategy.

The PRSP and PRGF reviews also underscore the need for a broader and deeper discussion with all stakeholders of macroeconomic frameworks and policies, including on alternative policy choices and trade-offs within the overall poverty reduction strategies. The reviews also recognize that a concerted international effort will be required to assist the countries in undertaking more systematic poverty and social impact analysis (PSIA) of major policies. The Bank and the Fund in cooperation with other partners are committed to help provide the necessary technical and financial support to low-income countries in undertaking PSIA.

Finally, with regard to financing, the "Monterrey Consensus" and the PRSP/PRGF reviews reaffirmed that sound economic policies and institutions, together with broad-ranging international support, are the twin pillars on which to build enduring poverty reduction and achieve the MDGs. In particular, the international community can help countries' efforts by increasing the aid and aligning it with country-driven poverty reduction strategies as well as opening markets to developing country exports, and phasing out trade-distorting subsidies. In this regard, we will continue using all opportunities to advocate and build support in governments and in public opinion in these areas.

Thank you again for your letter. We remain grateful for your contribution to the HIPC Initiative and we look forward to working with you on these and other issues in the future.

Sincerely yours,

Horst Köhler
Managing Director
International Monetary Fund

James Wolfensohn
President
The World Bank

CBP REGIONAL PARTNER

CEMLA'S FUNCTIONS & GENERAL CHARACTERISTICS

CEMLA (Centre for Latin American Monetary Studies) is a not-for-profit organization founded in 1952 by the Central Banks of Latin America and the Caribbean. Its aims are to promote a better understanding of monetary and banking matters in the region, as well as all pertinent aspects of fiscal and exchange rate policies, and their links to the economy in general.

To meet this objective, CEMLA seeks to:

- Improve the technical knowledge of staff from the region's central banks and other financial institutions, through the organisation of seminars and specialised training courses, and the publication of research and survey findings.
- Undertake research studies.
- Disseminate information regarding regional and international developments in the areas of financial and monetary policy.
- Maintain good relations and close coordination with national and

international bodies that promote knowledge on topics falling under the Centre's remit.

The Centre is composed of 47 institutions, 30 of which are associate members that have both voice and vote on CEMLA's Assembly.

CEMLA is based in Mexico City and is funded by annual membership quotas. The Centre's accounts are audited annually by the Bank of Mexico, thus complementing the Centre's commitment to transparency, efficiency and cost-cutting.

More than 10,000 officials from over 30 countries in the region and beyond have been trained through basic and specialised training courses since the Centre's inception 50 years ago. The Centre has also organised a large number of international seminars and meetings related to its objectives.

In accordance with a mandate from its Board of Governors in Prague in September 2000, CEMLA has integrated the HIPC CBP into its objectives and activities from the second half of 2001, as outlined in the Memorandum of Understanding (MoU) signed between CEMLA and DRI.



Latin America Regional DSA Tools Workshop: 2nd from the left, Jaime Coronado Quintanilla, CBP Co-ordinator at CEMLA

CEMLA'S APPROACH AND OBJECTIVES UNDER THE HIPC CBP

CEMLA's main goal is to assist its HIPC members (Bolivia, Guyana, Honduras and Nicaragua) and eventually other regional countries to develop their debt management capacity to the point where they can independently execute analysis and strategies to benefit from the HIPC Initiative and avoid future over-indebtedness. CEMLA also includes domestic debt in its definition of the debt problem.

CEMLA is conscious of the need to strengthen local capacities in debt management, and for this reason is emphasising in its programme of activities, the organization of national workshops whose main facilitators would be nationals of the country in which the workshop takes place.

It is also CEMLA's belief that efficient management of debt and finance requires not only knowledge of theoretical and operational aspects, but also a sound institutional and regulatory framework. Therefore, the programme includes research and systematic surveys to update information on the status of institutional and regulatory aspects of public finance systems in the region, providing a basis for organising regional workshops on these topics.

It is also important for CEMLA to extend the HIPC CBP to other (non-HIPC) countries in the region, a process that will be greatly facilitated by its long history of close working relationships with their Central Banks. Given the nature of the CBP, this would require consolidating relationships with the other public agencies involved in debt management in each country, a feature that has already been successfully achieved in the case of the HIPC countries.

INSTITUTIONS: CEMLA

FUTURE ACTIVITIES

CEMLA considers that the work undertaken with DRI has been extremely useful, and foresees that the transfer phase will be completed in 2004. After this date, CEMLA will be entrusted to implement the CBP in a sustainable manner, working together with the Programme's donors, DRI and the region's countries.

Future activities will be developed under the current framework established by the CBP, taking into account the countries' progress in the HIPC Initiative and debt management. Consequently, activities will focus on strengthening the capacity of regional officials in such a way as to allow the countries themselves to be responsible for future training.

In addition, the countries' progress in the Enhanced HIPC Initiative (Bolivia has already reached its Completion Point in 2001, and it is estimated that the other three countries will reach this stage in 2002-2003) means that there will also be a greater emphasis on post-HIPC issues in future activities.

CEMLA will have an active role in designing instruments for the analysis of domestic debt, which is already a problem in more than one country, and will therefore be included in capacity building activities. Similarly, private sector external debt issues will also be included in future training events.

It is important to maintain and reinforce the countries' existing achievements in debt management. Institutional and regulatory aspects will therefore be an important component of the future agenda.

All necessary efforts will be made, in coordination with DRI and other regional organisations, to provide a network of information through the organisation's website: www.cemla.org

Finally, the Programme will be flexible, including intensive support activities, tailored to suit individual country demands and requirements.

The following indicative programme of events has been planned to 2004:

- *5 Regional Workshops on: Macroeconomic Projections, Post-HIPC Issues, Domestic Debt Sustainability, Training for Trainers, and Institutional and Legal Issues in Public Finance.*
- *5 National Workshops to update national debt strategies, and to incorporate where required, Post-HIPC financing negotiations. These will be facilitated mainly by experts from the country where the event is taking place.*
- *5 Follow up Missions to countries according to their needs.*
- *Financing of study attachments of regional experts to international or regional centres of excellence based on demand, to work on*



specific aspects of developing methodology.

In a parallel and complementary way, CEMLA will also develop research activities related to the CBP and decisively support advocacy in coordination with the countries, DRI and regional partners.

CEMLA-DRI COLLABORATION UNDER THE HIPC CBP

CEMLA has executed the following activities in coordination with DRI:

2001

- *Demand Assessment Mission to Tegucigalpa, Honduras, in July 2001.*
- *Demand Assessment Mission to Managua, Nicaragua, in August 2001.*
- *Demand Assessment Mission to La Paz, Bolivia, in September 2001.*
- *Updating of the Debt Strategy Manual in August and September 2001.*
- *Nicaragua National Debt Strategy & Analysis Update Workshop in Managua, from 8-12 October 2001. This event was preceded by preparatory mission in the week prior to the workshop.*

- *Honduras National Debt Strategy & Analysis Update Workshop in Tegucigalpa, from 22-26 October 2001. This event was also preceded by preparatory mission prior to the event.*

2002

- *Updating of Debt Strategy Manual in February 2002.*
- *Bolivia National Debt Strategy and Analysis Workshop in La Paz, from 1-10 April 2002. This event was preceded by preparatory mission prior to the workshop.*
- *Latin America Regional DSA Tools Workshop, Mexico City, from 22-27 April 2002.*
- *Demand Assessment Mission to Georgetown, Guyana in June 2002.*

THE IMPACT OF HIV/AIDS DEBT SUSTAINABILITY

The CBP welcomes guest articles for its newsletter from HIPC government officials, policymakers and others who work with the programme. Issue 7 of our newsletter suggested that 'shocks' to HIPC economies could severely disrupt progress to long-term debt sustainability. One of the most important shocks for many HIPCs may be the HIV/AIDS pandemic – unless countries plan ahead now to combat the disease. As a result, Dr. Sétou Kaba, advisor at the UNAIDS Inter-Country Team for West and Central Africa, who has worked as consultant to the CBP since 1998, has contributed an article on this issue.

The Scale of the Pandemic

The latest figures from UNAIDS indicate that 40 million people worldwide are living with HIV/AIDS, with new cases reaching 5 million, and deaths 3 million in 2001. Within HIPC countries, the number of people infected is estimated at almost 20 million, but the adult prevalence rate varies dramatically from less than 2.5% in Mauritania, Mali and Senegal to over 15% in Malawi and Zambia. However, no country can afford to underestimate the scale of the problem, given that the rate of infection is still rising in almost all countries (with the exception of Senegal and Uganda).

How Will HIV/AIDS Affect Long-Term Debt Sustainability?

We should begin this analysis by looking at the most direct effects of HIV/AIDS. Under the Enhanced HIPC Initiative, long-term debt sustainability will continue to be judged using ratios that compare the present value of debt or debt service, with export earnings or budget revenue. Under current policies, HIV/AIDS will worsen both elements of these ratios:

- *On the one hand, it may push up debt levels. Even with the recent moves to provide World Bank, funding for AIDS on grant terms, grant financing pledges have fallen well short of the amounts requested by the UN Secretary General in 2001, as the absolute minimum necessary to reverse the spread of the disease. Unless grant financing is made available in much larger*

amounts, countries which wish to accelerate the fight against AIDS may almost be forced to access loan financing, distorting their financing of future development and compromising their debt sustainability.

- *On the other hand, it will have negative consequences for a country's capacity to mobilise export earnings or budget revenue. There is already strong evidence of a deepening negative effect on GDP per capita. HIV/AIDS is also specifically reducing the production capacity of many export earners (through loss of skilled labour) and the taxable capacity of many levels of society. Studies of Côte d'Ivoire and Thailand have shown that families of all classes and income levels affected by HIV/AIDS have suffered a loss of revenue as high as two-thirds. The shortfall in export earnings and budget revenue will also increase balance of payments and budget deficits – and in the latter case this will reduce the funding available to implement wider poverty reduction programmes.*

Secondly, HIV/AIDS of course implies direct financial costs for those affected and for society as a whole. Families that are hit by the disease (as well as their friends and relatives) have to spend much more on AIDS-related health care and funerals, and therefore have fewer resources available to spend on food, water, clothing, education and other health care. AIDS therefore plunges poor families – especially those that have lost the head of their family – further into poverty, and turns stable families into 'vulnerable poor', making them more vulnerable to AIDS and other health infections.

AIDS also dramatically increases national health care demand – not just for AIDS care, the cost of which remains well outside the financial reach of most Sub-Saharan countries – but for treating all the related health problems, notably tuberculosis. This can divert budget resources away from preventive and primary health care programmes, and overstretch all health services. In extreme cases, it is already diverting budget resources away from other types of investment in human capital (such as education).

Third, the spread of HIV/AIDS can offset the positive impact of poverty reduction programmes in many other ways. For example, children of families affected by HIV/AIDS, and especially AIDS orphans, are much less likely to be enrolled in school, as has been shown by studies of Brazil, Burkina Faso, CAR, Côte d'Ivoire, Haiti, Kenya and Tanzania. These families are also much more likely to have to abandon vulnerable relatives – such as the elderly – thereby removing the social safety net of extended family systems, and increasing the burden on the state. Similarly, falls in agricultural production in AIDS-affected zones can compromise their food security, making them more reliant on food aid.

A fourth key impact will be on the availability of trained and experienced personnel in government departments – including those engaged in designing and implementing debt reduction and poverty reduction strategies. Senior government officials are often the most mobile members of society and therefore also the most prone to decimation by HIV/AIDS. This also extends to the private sector, with the disease hitting the most skilled and mobile labour and most productive age groups in the workforce.

As a result, a fifth impact is on the perception of the country by foreign and national investors. Many studies of factors deterring investors have found HIV/AIDS near the top of their list in countries where prevalence exceeds 10%. They are worried about the impact on their labour force – and indeed those who have already invested in countries are seeing this impact, especially in the mining industry. Less foreign and domestic private investment means more dependence on aid and debt-creating flows.

This is by no means an exhaustive list of the effects of HIV/AIDS on long-term debt sustainability. Almost every aspect of the national economy and society are negatively affected by the disease – translating into a sharp fall in life expectancy. Yet it is not clear that the combined influence of these different factors has been taken into account in analysing the prospects for long-term debt sustainability in HIPCs. Any projections for a country with an AIDS prevalence over 5%,

ON LONG-TERM

need to start from an assumption that future growth rates must be adjusted downwards in initial years to take account of the spread and impact of the disease, before perhaps recovering in the long term if sufficient funding has been allocated to the fight against AIDS without undermining other efforts at poverty reduction. Yet only 3 HIPC decision point or completion point documents have analysed the impact of the disease.

How Can We Fight HIV/AIDS and Enhance Debt Sustainability?

It must be obvious from the above analysis that every decision-maker in African governments and in the international community needs to put AIDS at the forefront of their thinking when analysing long-term debt sustainability for HIPC. This involves the following steps:

- *Strategic planning – mapping the HIV/AIDS situation, including epidemic hotspots, factors driving its spread, and the strengths and weaknesses of national responses All HIPCs have completed this initial stage, in almost all cases fully involving the people who are living with HIV/AIDS.*
- *Action planning – designing a fully costed and timetabled action plan to reduce the prevalence sharply in line with the Millennium Development Goals. Most HIPCs have also produced at least preliminary versions of such action plans. It is vital to note that many action plans do not take sufficient account of the wider non-health actions needed to combat the disease.*
- *Integrating the action plan into all aspects of the poverty reduction strategy. Though most PRSPs have contained anti-AIDS actions, they have not thought through all of the knock-on effects of the epidemic. Although many countries class AIDS as a ‘cross-cutting issue’, it is often still being analysed separately without full integration into the health sector. This means that its relative impact on debt sustainability compared to other diseases is not analysed – for example, in some countries with low AIDS prevalence, other diseases such as tuberculosis and malaria (and their interaction in weakening resistance of infected people) are equally as or more important than AIDS as a barrier to long-term poverty reduction (which is why the UN has created a joint Global Fund to fight*



Dr. Sétou Kaba, Technical Advisor / Poverty, Debt & HIV/AIDS, UNAIDS Abidjan

AIDS, Tuberculosis and Malaria in January 2002). More commonly, PRSPs do not consider in full AIDS’ impact on the economy and debt sustainability. As a result, anti-AIDS interventions are not being targeted sufficiently on key groups – such as farming families or private sector workforces – who can offset the wider effects of the disease and contribute to long-term debt sustainability. Anti-AIDS interventions need to go much further than health spending – for example improving water and sanitation, making agriculture more productive through micro-credit, higher quality seeds and fertilisers, and extension services.

- *Modelling and forecasting the long-term demographic impact of the epidemic. This can then be used to show its impact on sectoral growth rates and supply and demand. This modelling and planning needs to be encouraged in all sectors, involving all actors in the sector such as, for example, export growers, employers, trades unions, health workers, teachers and soldiers. The results of these sectoral models can be fed into and combined with macro-economic analysis models that simulate the impact on GDP, poverty, exports and budget revenue. Every PRSP and HIPC completion point*

document for any country with a current or projected AIDS prevalence over 5% should explicitly include an analysis of different AIDS prevalence scenarios and scales of funding for anti-AIDS programmes, as part of the wider anti-poverty spending programmes.

- *Ensuring cost-effectiveness of spending. Obviously every measure that can be taken to reduce the cost of condoms, drugs and other key inputs to the anti-AIDS struggle will help to ensure that it can be sustainably financed. However, there has not been enough focus on another means of cost-cutting that makes anti-AIDS programmes even more sustainable. This is the need to build capacity from the bottom up in AIDS-affected communities and families, which will reinforce participatory development and the integration of anti-AIDS programmes with wider anti-poverty programmes. This will mean maximum diversity of anti-AIDS support – involving the state, NGOs and community-based organisations – and a particular focus on community education and health personnel, training and empowering voluntary community workers to move into paid posts.*
- *Mobilising financing for combating the epidemic as part of the wider trend to budget support under PRSPs. In view of the cross-cutting nature of the epidemic, ideally funding should be fully integrated into the wider PRSP and not earmarked for anti-AIDS programmes. Even if, in the current international climate, anti-AIDS programmes are better at mobilising project-specific funding, ultimately it will be untied support for the overall national budget (and domestically-generated budget revenue) which will sustain the fight against AIDS. It is also vital that the funding mobilised is preferably in grant form - or if absolutely necessary in highly concessional loans*

Unless all sides take these measures, and focus much more closely on the potential impact of AIDS on long-term debt sustainability, we are all in for a very large ‘shock’ which will prevent the HIPCs’ debt from being sustainable, and stop us from reversing the spread of the disease by the year 2015.

HIPC INITIATIVE: COUNTRY PROGRESS AND PRSP STATUS (JUNE 2002)

Country	HIPC II Dates		PRSP Dates	
	Decision	Completion	Interim	Final
Angola	no current timetable		2002	...
Benin	7/00	1Q2002	7/00	3Q2002
Bolivia	2/00	6/01	2/00	6/01
Burkina Faso	7/00	04/02	NA	7/00
Burundi	2003	...	2002	...
Cameroon	10/00	4Q2003	10/00	3Q2002
Central African Rep.	1S2003	...	1/01	3Q2002
Chad	5/01	2003	7/00	3Q2002
Comoros Islands	2002	...	2002	...
Congo, Dem. Rep. of	1S2003	2006	6/02	2005
Congo, Rep. of	1S2003	...	2002	...
Côte d'Ivoire	3Q2002	...	3/02	3Q2002
Ethiopia	11/01	2003/2004	3/01	3Q2002
Gambia	12/00	2003	12/00	2Q2002
Ghana	02/02	2004	8/00	1Q2002
Guinea	12/00	2003	12/00	2002
Guinea Bissau	12/00	2003	12/00	4Q2002
Guyana	11/00	2003	11/00	05/02
Honduras	7/00	2003	7/00	10/01
Kenya	DSA due in 2002		8/00	2002
Lao PDR	no current timetable		4/01	4Q2002
Liberia	no current timetable		no PRSP process	
Madagascar	12/00	2003	12/00	2002
Malawi	12/00	2003	12/00	2002
Mali	9/00	3Q2002	9/00	2Q2002
Mauritania	2/00	05/02	NA	1/01
Mozambique	4/00	9/01	4/00	9/01
Myanmar	no current timetable		no PRSP process	
Nicaragua	12/00	2003	12/00	9/01
Niger	12/00	2Q2003	12/00	2/02
Rwanda	12/00	3Q2003	12/00	3Q2002
São Tomé & Príncipe	12/00	2003	4/00	3Q2002
Senegal	6/00	4Q2002	6/00	3Q2002
Sierra Leone	3/02	2004	9/01	2003
Somalia	no current timetable		no PRSP process	
Sudan	no current timetable		no PRSP process	
Tanzania	4/00	11/01	3/00	12/00
Togo	2003	...	4Q2002	...
Uganda	2/00	5/00	NA	5/00
Vietnam	DSA due in 2002		4/01	2002
Yemen	6/00	...	2/01	2002
Zambia	12/00	4Q2003	7/00	05/02

Sources:
IMF & World Bank

Dates for HIPC decision and completion points and PRSPs are those of final BWI Board approval. Some governments have published PRSPs several months before BWI approval.

The delays in the HIPC and PRSP process continue to grow. In the second quarter of 2002, Burkina and Mauritania have reached their completion points and there have been no decision points. Guyana and Zambia full PRSPs and DR Congo's interim PRSP are the only PRSPs approved in this quarter. Completion Point and/or PRSP dates for several countries (Benin, Honduras, Madagascar, Rwanda and Senegal) have slipped. In the next quarter, only 2 completion points and 1 decision point are expected (as well as 9 full PRSPs).

HIPC Initiative and PRSP Progress

Key Current Issues

preliminary DSA shows ratios under HIPC thresholds, staff-monitored programme
delays in preparing full PRSP; cotton exports shock may make unsustainable at CP
second country to reach HIPC II completion point, but debt service ratio higher than at DP
fifth country to reach CP and first to get more relief at CP due to cotton shock. Received Paris Club relief
IMF staff-monitored programme from July to Dec. 2001. Possible IMF PRGF Programme late in 2002
delays in preparing full PRSP
political instability has driven PRGF off track; possible resumption of IMF financial support late in 2002
Receiving interim debt relief but delays in PRSP. Cotton shock
IMF staff-monitored programme from July 2001 to June 2002 and then possible PRGF
3-year PRGF approved by the IMF Board in June
timing of possible PRGF arrangement and HIPC decision point will depend on improved performance
PRGF approved for 2002-2004; DP possible in Sept. 2002
reached decision point in November 2001; full PRSP for 2002
Delays in preparing full PRSP. Bilateral discussions on Paris Club interim debt relief ongoing
PRSP and PRGF being implemented, Paris Club providing interim relief
PRGF problems
staff-monitored programme for first half 2002; obtained Cologne terms with PC
PRSP finalised but PRGF problems delay approval by BWIs. Only Lyons terms from PC; problems with commercial creditors
delays in PRGF postpone completion point
likely to apply for debt relief, but preliminary DSA shows ratios under HIPC thresholds so will receive Naples Terms
PRGF review completed; DSA underway for decision on HIPC
no current IMF programme
delay of HIPC process and PRGF non-compliance due to political turmoil
problems with comparable terms from non Paris Club creditors. Delays in PRSP & PRGF
delays in preparing full PRSP and PRGF review; cotton shock
PRGF on track; sixth country to reach CP with slight delay
third country to reach completion point; problems with non Paris Club comparability
no IMF programme since 1981-82, no WB lending since 1987. Probably unsustainable
IMF staff-monitored programme off track, negotiations on new PRGF in 2002; major CP delay
final PRSP approved by BWIs, but delay to CP; cotton shock
will be unsustainable at Completion Point. Problems with PRGF, full PRSP and non-Paris Club comparability
Paris Club interim relief not yet provided, problems with comparable terms, staff-monitored programme recently agreed
delay in PRSP; delays in completing PRGF reviews; receiving interim relief
DP reached, PRSP expected mid-2003
no current IMF programme
no current IMF arrangement
fourth country to reach completion point, major problems with comparable terms, coffee exports shock
IMF staff-monitored programme conducted from April to December 2001, may be extended to end 2002
continued difficulties with non Paris Club/commercial creditors; coffee exports shock makes debt unsustainable
preliminary DSA shows ratios under HIPC thresholds; PRGF review completed
ratios under HIPC thresholds so ineligible, Paris Club Naples stock, PRGF review completed
delays in finalising PRSP; Paris Club relief in principle; problems with non-Paris Club creditors

CBP LAUNCHES PHASE 3

The CBP began phase 3 of its activities in April. Since then, as agreed at the ninth Steering Committee in November 2001, the implementing partner organisations (BEAC/BCEAO Pôle-Dette, CEMLA, DRI, MEFMI and WAIFEM) have undertaken the following projects:

Rwanda Capacity-Building and Advisory Project

The sixth mission took place from 24 March to 5 April. Its main purpose was to review and assess the impact of different new borrowing scenarios and provide technical support during discussions with the IMF on a future national borrowing policy. It assisted national authorities to review Rwanda's debt sustainability at Completion Point, the impact of various new borrowing scenarios on debt sustainability, and the feasibility of financing the fiscal deficit and the PRSP. At the same time the mission provided advanced training in Debt Pro for staff of the Ministry of Finance and the National Bank of Rwanda. The mission concluded that: a) the PV/export ratio had risen sharply due to changes in CIRR and more importantly to a large fall in exports compared to the Decision Point assumptions; b) Rwanda did not engage in any significant extra new borrowing after the Decision Point; and c) Rwanda will be able to borrow almost as much as it needs to fully finance its most optimistic absorption scenario for implementing its PRSP expenditures without making its debt unsustainable again.



Bolivia DSA Update Workshop, La Paz, April 2002

Bolivia National Debt Strategy Update Workshop (with CEMLA)

The workshop was held from 1 to 10 April in La Paz, and was attended by thirty-four participants from the Ministries of Finance, Health and Education, the Central Bank of Bolivia and municipal authorities (which examined municipal external and domestic borrowing). The workshop updated Bolivia's debt strategy and cemented existing

capacity in debt management and poverty reduction programming, as well training new officials. Given Bolivia's status as one of the six countries that have reached Completion Point. The main aims of the workshop included the analysis of the impact of HIPC Completion Point relief on external debt sustainability, and assessment of the future burden of domestic debt. The main results indicate that planned relief should allow Bolivia's external debt indicators to remain sustainable until 2015, though the debt service ratios are higher than expected at decision point. However, the projections also indicate that in the long term the country's total debt is not sustainable because of an ever-increasing domestic debt burden.

Mali Follow up Mission (with Pôle-Dette)

The Mali follow-up mission took place from 2 to 12 April and helped the authorities to update their DSA before completion point. Due to a huge increase in gold production and exports (which increased the overall export receipts and therefore lowered the PV/export ratio), it appears that Mali will be sustainable at completion point in the baseline scenario. However, the country's debt could become unsustainable if the export trend turns down again. In addition, the mission tested the amount of new financing necessary to fund government spending so as to reach the millennium goals by 2015, and found that this extra funding, if mobilised on the same terms as Mali's current external financing, would make its debt unsustainable again.

Mozambique DAM (with MEFMI)

At the request of the Government of Mozambique, and funded by Sida Maputo, DRI and MEFMI undertook a joint demand assessment mission to Maputo from 15 to 26 April. The DAM identified a strong political commitment to and ownership of strengthening debt management in Mozambique, starting from a position of relatively low capacities in many functional areas. A top priority area is training in debt strategy analysis in order to develop of a post-HIPC financing strategy. However there are a number of factors that need to be in place beforehand, such as the updating of the CS-DRMS debt database, and the creation of a national team or working group to conduct debt strategy analysis. A two-phase capacity development programme is being discussed with the Government with the first phase focusing on the development of a post-HIPC debt strategy, and the

second providing more in depth training in a number of functional areas.

Latin America Regional DSA Tools Workshop (with CEMLA)

The Latin America Regional DSA Tools Workshop took place at CEMLA's headquarters in Mexico City from 22-27 April. Delegations were comprised of 6 officials from each of the Governments of Bolivia, Honduras and Nicaragua, as well as 4 key CEMLA officials. Workshop participants were trained in the preparation of debt data and the design of debt relief scenarios, using the Debt-Pro® simulation software, to analyse each country's debt sustainability. The workshop provided the participants with the opportunity to review debt strategies implemented in previous national debt strategy workshops, as well as to design new debt strategies. All countries were able to learn the latest features of the latest developments of the Debt-Pro® software. Bolivia's exercises focused on post-HIPC relief and the impact of domestic debt on debt sustainability. The team revised all recent strategies and was able to confirm its results from the La Paz workshop indicating the negative effect of domestic debt on total medium and long-term debt sustainability. The Honduran and Nicaraguan delegations were able to refine their existing strategies assuming a delay in reaching Completion Point.

Francophone Training for Trainers Workshop (with Pôle-Dette)

From 22 to 31 May, 54 participants, observers and resource persons from 11 countries and 3 regional organisations (BCEAO, BEAC, WAEMU) participated in the first Francophone African Training for Trainers Workshop, in Cotonou, Benin. It began with a comprehensive briefing and overview of the workshop methodology and contents by the regional experts. This was then followed by a full day's training session on the key features of the Debt-Pro® software. Thereafter the workshop schedule was similar to the timetable for a National Strategy Workshop with participants working in technical groups – Debt Data Specialists, External and Domestic Debt Managers, Macro Analysts and Poverty Reduction Analysts. In each case, the participants worked through the technical tasks from the point of view of being trainers rather than participants. So they focused on the key issues needed to ensure the workshop runs smoothly, as well as identifying problems and how to resolve them. The final two days

of the workshop focused on the interpretation of DSA analysis and results, the presentation of the phase 3 of the CBP, the presentation and the testing of the new methodology for evaluating country's capacity, and the presentation of Pôle-Dette second-generation debt strategy workshops (including new methodologies on domestic debt strategy analysis and post-HIPC new financing issues). The workshop produced many fascinating lessons for moving forward into the next phase of the CBP's work, especially on documentation needs for Debt-Pro^o, and methodology for forecasting macroeconomic developments and poverty reduction, which will be incorporated into further revisions of the Debt Strategy training manuals during the second half of 2002.

Guyana DAM (with CEMLA)

A joint DRI and CEMLA mission visited Guyana from 3-7 June 2002 to update assessment of Guyana's capacities in debt management, and identify priorities to strengthen capacity. The mission designed a two-stage process for assisting Guyana during 2002-03. First, the President's Office requested an urgent mission to assist in updating the debt strategy analysis before Guyana reaches its HIPC completion point. Second, the mission identified important institutional measures that need to be implemented if CBP capacity-building interventions are to have a more permanent effect. In particular, there is a need to improve information flows and co-ordination among departments involved in debt management, and to re-launch the Debt Strategy Technical Working Group as a coordination forum. As a result of significant staff turnover, there is also a need to appoint new staff to the DMD, and to train the new staff in debt strategy analysis. The mission also agreed that as a precursor to this training, the new version of CS-DRMS (2000+) must be installed, staff trained in its use and the database updated. The mission also identified the need to strengthen capacity in domestic debt analysis and macroeconomic projections.

Guinea Institutional mission (funded by Canada)

At the request of the Government of Guinea, a mission took place in Conakry, from 3 to 12 June, to make an updated assessment of capacity in debt management. The mission was assessing the following areas:

- *the institutional framework and co-ordination among government agencies;*
- *management, human resources and working conditions;*
- *capacity for debt strategy analysis and implementation;*
- *capacity for new borrowing policy and implementation;*
- *capacity for computerised debt recording and the status of the debt database;*

- *capacity for designing and implementing a debt renegotiation strategy;*
- *capacity for forecasting macroeconomic projections and poverty reduction programming*

The main findings of the mission are that there is an urgent need for Guinea to acquire an international-standard debt management software, to implement institutional reforms in order to streamline overlaps, to set up a debt management committee to improve coordination among government agencies, and to implement an extended capacity building programme in all debt management areas with a view to establishing a coherent long-term debt strategy. A detailed capacity building plan is under preparation for the next 12 months.



WAIFEM Domestic Debt Sustainability Workshop: inter-regional consultants Michele Robinson (Jamaica) and Lazarus Kamanga (Zambia); Baba Y. Musa (WAIFEM); Alison Johnson (DRI) and H. E. John G. Perrott, UK High Commissioner in The Gambia

Regional Domestic Debt Sustainability Workshop (with WAIFEM)

The joint DRI and WAIFEM Regional Domestic Debt Strategy Workshop, conducted in Banjul from 3-14 June and attended by 30 participants from The Gambia, Ghana, Nigeria and Sierra Leone, was the first using the new CBP methodology for domestic debt strategy analysis. The new methodology extends the current domestic debt strategy analysis beyond domestic debt needs for budget deficit financing to include domestic debt analysis and strategy design for monetary policy implementation and financial sector development. As a result participants were divided into four technical groups: domestic debt data specialists, budget analysts, monetary analysts and financial sector specialists for the first few days of the workshop, for training in the underlying analysis needed for strategy design. Thereafter they worked in Country Teams to design domestic debt restructuring and new issuance scenarios, taking into account the sometimes conflicting demands of budget financing, liquidity management and financial sector development. They then analysed the results of the simulations and drafted

domestic debt reduction strategies. Finally, they designed capacity-building plans to strengthen all aspects of domestic debt management and strategy formulation.

All four countries have heavy domestic debt burdens, in some cases because of large and unacknowledged payment arrears to suppliers or overdrafts with the central banks. In terms of conventional instruments, the main instruments issued in all four countries are short-term Treasury bills and government bonds/stocks, the main holders of which are the commercial banks and central banks. As for future strategies, all four countries identified measures that will ensure long-term sustainability of their domestic and total debt burdens. These include lengthening the domestic debt portfolio maturity, broadening the base of holders of domestic debt instruments, and restructuring arrears, overdrafts and contingent liabilities with donor support. All four countries identified this area as a top priority for future national-level work. Participants and Resource Persons' feedback will form an important input into finalising this methodology for use in national training in domestic debt strategy in the WAIFEM region and throughout the 35 HIPCs that are members of the CBP.

Information-Sharing Issues

During the semester substantial progress was made in updating and improving the CBP website in the four CBP languages (see article on page 12) and the publication of Private Sector External Debt: Main Issues and Challenges for Monitoring (see article in Issue 11).

Future activities

The key events during July to September 2002 will include:

- *the extension of the Rwanda Debt Management and Advisory Project into a second year, in order to cement existing institutional development achievements and extend training to new areas such as domestic debt and post-HIPC financing;*
- *the finalisation of a project for intensive assistance to Mozambique in debt management capacity-building;*
- *3 Demand Assessment Missions to Angola, Comoros, Democratic Republic of Congo;*
- *3 Follow Up Missions to Benin, Guinea Bissau and São Tomé & Príncipe;*
- *4 institutional support missions to Benin, Burkina, Cameroon and Mali;*
- *3 Debt Strategy National Workshops in Angola, Central African Republic and Senegal;*
- *3 Regional workshops: with WAIFEM on Post-HIPC external financing and an executive forum on capacity-building and debt strategy; and with the ACBF on the creation of a regional capacity-building unit for the PALOPs.*

DRI AND DFI LAUNCH TECHNICAL RESOURCE WEB PAGES FOR DEVELOPING COUNTRY OFFICIALS

Following increased demands for more detailed information from developing country managers of debt and private capital flows, DRI and DFI have launched a new series of pages on their website providing a range of technical information which is vital to policymaking and forms the core of training activities. The pages will also allow you to search for specific information on a certain subject area, by looking under either the workshop type, general subject area or key frequently asked technical questions.

For the DRI programme, this section of the website provides HIPC government officials and regional partner organisations with a wide range of background materials essential to implementing the HIPC Initiative, conducting and updating national debt strategy analyses and renegotiating debt. Among the key tools provided here are:

- programmes to download debt data for debt strategy analysis from CS-DRMS and DMFAS;
- summaries of the best terms HIPCs can get in renegotiating debt with all creditors;
- the latest international terms on new official and commercial borrowings;
- the latest CIRR discount rates; and
- information on the best sources for global macroeconomic projections.

Training and reference materials from our Debt Strategy and Analysis Workshops, Debt Negotiations Workshops and corresponding

Guides for Trainers are currently available to download, including:

- debt data management;
- external and domestic debt strategy management;
- macroeconomic analysis; and
- poverty reduction analysis.

For the DFI Monitoring and Analysing Private Capital Flows to Developing Countries programme, there is also a range of information on best practices in monitoring and analysing Private Capital Flows and Private Sector External Debt. Key tools to access are:

- tools to convince the private sector to report on their investments;
- explanations of BOP, IIP, FAL and

PSED methodology;

- latest versions of best international practice survey forms for capital flows and investor perceptions;
- a guide to deciding how to collect information on corporate social responsibility; and
- tools for managing and monitoring progress with surveys and guides for analysis.

In the not too distant future, these pages will be expanded to include frequently asked technical questions, training materials and background reference documents for our more recent specialised training events, on Domestic Debt Strategy Formulation, and Post-HIPC New Financing Workshops.

REGISTER ONLINE NOW

The technical resource pages can be found at the following domain: www.dri.org.uk. As before, the site is divided into public and private 'Members Only' sections in order to provide more detailed, confidential information to developing country officials. Access is therefore restricted to these officials, the programmes' donors and regional partners. In order to gain access to the private site, you must first register by accessing the DRI site at the above address, and complete the online registration form. If applicable, you will be sent your personal username and password by email which will allow you to access the Members' section of

the site, including technical resource pages and CBP publications.

The English pages are already online. The French versions will be up by end-June 2002, followed closely by the Spanish and Portuguese versions by end-July and end-August respectively.

We are interested to receive any comments or suggestions you may have regarding the website, especially any new ideas to improve its content. Please feel free to contact us at the following email address, or via any of our usual contacts (listed at the back of the newsletter): comments@dri.org.uk

DFI – PROGRESS REPORT

During the April to June quarter, countries participating in the *Monitoring and Analysing Private Capital Flows to Developing Countries Programme* continued or finalised their censuses and are preparing for the second phase. 'New' countries expressing demand to join the second phase at the *International Workshop in Tanzania in March*, are drafting formal proposals for entry.

COUNTRIES PARTICIPATING IN PHASE 1

Malawi achieved a response rate of 68%, covering over 85% of foreign liabilities. At a closing workshop in April, findings were disseminated to senior representatives from the private and public sectors (see next article) and next steps were planned. Malawi is proposing to commence Phase 2 in Q3/Q4 2002.

The Gambia census received an excellent 93% response, reflecting proactive fieldwork and leadership, very good private sector cooperation, and relatively small economy and sample. The closing workshop and mission, set for late July, will present results and analysis, and chart the way forward. It will be jointly hosted with WAIFEM, with support from Bank of Jamaica and observers from Zambia. It is anticipated that Phase 2 will begin in Q3 or Q4 2002.

Ghana is working to improve a low rate of 35%. Following on from positive meetings between DFI and DFID WNAD and indications of high-level support in Ghana, the team requested to extend and complete the exercise. A DFI-WAIFEM follow-up mission rescheduled for the third quarter will be confirmed with senior Bank of Ghana officials. It is anticipated that Phase 2 would begin in Q1 2003.

Zambia launched their census in mid-April and is receiving good cooperation from the private sector in completing forms. A DFI-MEFMI follow-up mission in early June assisted the team to boost the response rate to 35%, improved

data quality, implemented the DFI generic Access software, and trained on editing and checking returns and processing and validation of data. The mission also included experts from Bank of Uganda and the Reserve Bank of Malawi. It is anticipated that Phase 2 would begin in Q4 2002 or Q1 2003.

Trinidad & Tobago held an opening sensitisation & training workshop in late June. The team plans to launch in July and finalise the survey by January 2003. The country differs from others in the programme, by already having an established quarterly survey that receives good response. DFI is assisting to improve their methodology by requesting necessary stocks data, and information on investor perceptions and corporate social responsibility & governance, to meet international codes and standards. And also to strengthen implementation by reviewing institutional and legal arrangements, and training in proactive fieldwork to boost response rate and data quality. Trinidad & Tobago is financing all local expenditures.

Tanzania, Uganda and **Guyana** have completed Phase 1, and are disseminating the final analytical report to stakeholders. Teams are finalising their proposals for Phase 2, in consultation with local donor offices and DFI. These countries are ready to commence Phase 2 in Q3, and Uganda has received preliminary support from the local DFID office.

'NEW' COUNTRIES APPLYING FOR PHASE 2

Ethiopia, Jamaica, Kenya, Lesotho, Mauritius and **Swaziland** could be among the first countries to enter the DFI Phase 2 programme during Q3 and 4, 2002. Kenya has prepared a proposal, and has received strong support from the local DFID office. It is ready to begin its census in Q3.

METHODOLOGY AND INFORMATION PRODUCTS

New methodological tools include the tracking of corporate social responsibility & governance (CSRG) and on census

implementation issues are being developed in time for Phase 2, and existing tools finalised or refined. Evaluation products to assess country capacity, events, consultants, and regional organisations are being finalised for Phase 2.

DFI has enhanced the generic entry and analysis software in Access, based on user feedback from Uganda and Malawi. This can be applied to foreign assets and liabilities, investor perception, CSRG, tracking of response rates, and other databases with minimal or no revision.

DFI pages on the joint website were updated and expanded to include generic training materials. After positive feedback of test pages by Phase 1 country team members and resource people, training materials went live in April. Subscription to the closed site is already high, with positive response from 30 people so far. By the end of June, DFI will have updated the calendar and country contacts list, uploaded the paper on Private Sector External Debt and the International Workshop report, and added links to relevant websites on BOP and CSRG.

LIAISON WITH CO-OPERATING PARTNERS AND DONORS

DFI is continuing to work with regional partner organizations. MEFMI and WAIFEM participated in missions and workshops for their member countries, and CEMLA will participate in the Trinidad & Tobago opening workshop.

DFI continued to liaise closely with donors (Canada, Sweden, Switzerland, UK, Denmark), as well as regional offices. An initial draft of the UK DFID sponsored independent review of the programme is due end-June.

STAFF RETREAT

DFI held a strategic staff retreat in April, where office procedures were reviewed and transfer of capacity (administrative, methodological, information products) was mapped out for phase 2. Regional organisations, donors, DFI and DRI will meet in London in July to discuss the way forward. Issues include funding, cooperation mechanisms, and capacity transfer.

MALAWI SURVEY FINDS HIGH FOREIGN INVESTMENT BUT PRESSURES FOR SHORT-TERM FUNDING

MALAWI SURVEY FINDS



Malawi Closing Workshop, from the left: Paul Mamba (Reserve Bank Malawi) and Hendrie Scheun (DFI)

Since 1993 Malawi has been liberalizing its economy, keeping only some restrictions on outward investment and registration of external borrowing. Exchange control reporting allows the country to compile the balance of payments (BoP), but is based on the outmoded BoP Manual 4th edition (BPM4). Little information is available on foreign direct or portfolio investment (FDI), private sector external borrowing (PSED), or stocks of foreign assets and liabilities.

However, the legal mandate for data collection, compliance and confidentiality is strong, with a well-functioning BoP and National Accounts committee, and a culture of reporting by the private sector. Recognising the importance of private foreign capital for financing growth and human development, the authorities requested DFI and MEFMI to help upgrade monitoring systems to better inform policy decisions.

During April-July 2001, Malawi widened the membership and scope of its BoP committee, and prepared a survey on FAL stocks and investor perceptions with a comprehensive sample frame of 500. Workshops in July trained

and sensitised the public and private sectors, and established an implementation team from the Reserve Bank of Malawi, National Statistics Office, Malawi Investment Promotion Authority, Ministry of Finance and Economic Planning, and National Economic Council. The survey was launched in August, amidst an intensive media campaign and, by February 2002, had responses covering 85% of all foreign liabilities, providing results which were disseminated at a closing seminar in April 2002.

The main findings of the survey were:

- FDI forms a significant part of the external financing of Malawi's development, with total stocks at US\$291m, or 17% of GDP by end 2000 (see table below). This was slightly down from 1999 levels due largely to exchange rate changes.
- The main source countries (the UK, USA, RSA and Norway) represented over 80% of the total, with African countries (RSA, Mauritius, Zimbabwe, Kenya, Botswana, Mozambique and Zambia) making up 23%.
- FDI went mostly into manufacturing (48%), and wholesale & retail trade (24%), and predominantly into the southern and central regions.

As shown in the table, Malawi had a reasonable percentage of direct equity financing (47% of total stocks). Debt financing accounted for 53% of the total or

12.5% of GDP. Almost half of this was inter-company borrowing, which has highly flexible terms – mostly no interest or repayment schedule, and no fixed maturity. However, over a third 35% of total financing and two-thirds of total inter-company borrowing were short-term. Evidence of the changes in proportions of stock between 1999 and 2000 also indicates some volatility between equity and borrowing. The survey also found that external investment in Malawi's portfolio debt (bonds and bills) markets was small, and its country's stock of foreign assets was insignificant.

The investor perceptions survey provides some key clues to the high amounts of foreign capital. Investors encouraged by regional market expansion opportunities, monetary policy; expatriate employment policy; banking services and cheap labour. As a result, over 80% plan to increase their investment over the medium term.

However, the high percentages of external debt and short-term financing reflect a lack of confidence in regional political developments, high inflation & interest rates, and exchange rate volatility. They are also influenced, as in other developing countries, by more favourable tax treatment of borrowing in the investors' source countries. Other negative factors constraining investment levels are low labour productivity, the HIV/AIDS pandemic, floods and droughts, costs of transport, utilities and banking services, and the perceived inefficiency of the Malawi Revenue Authority.

Policy Implications:

The survey has produced several vital and new policy implications:

- Stocks of FDI and PSED are much larger and have much more potential to grow than previously thought, but are also more volatile, necessitating permanent monitoring of their impact on the economy.
- FDI is fairly diversified by source country, but investment from Africa is larger than expected, identifying new targets for promotion efforts;

Malawi's Private Sector External Liabilities (in US\$ millions)

	1999	2000
TOTAL FOREIGN LIABILITIES	444.6	407.9
<i>OF WHICH: SHORT TERM</i>	<i>123.5</i>	<i>141.1</i>
Direct Investment	324.7	291.3
Equity Capital at Market Values	245.1	188.7
Shareholder Borrowing	79.6	102.5
<i>Of which: Short-term</i>	<i>57.3</i>	<i>70.8</i>
Portfolio Investment	3.3	2.0
<i>Of which: Short-term Debt Securities</i>	<i>0.2</i>	<i>0.1</i>
Other Investment	116.6	114.6
Trade Credits	63.1	64.4
Loans	53.5	50.2
<i>Of which: Short-term</i>	<i>66.5</i>	<i>70.2</i>
Total FDI as % of GDP	18.1%	16.7%
Total PSED as % of GDP	11.0%	12.5%

Source: Malawi FAL Survey 1999/2000

- *FDI lacks sectoral diversification, highlighting the need for policy measures to upgrade rural infrastructure and encourage processing of commodities, and for research in how to attract investors to agro-processing, mining and agriculture.*
- *The northern region also requires special action to attract investors.*
- *The high level of external debt financing means more actions need to be taken to reduce inflation, domestic interest rates and exchange rate volatility, as well as supporting all measures for regional political stability, in order to encourage equity inflows. This must be accompanied by more research into the international causes of debt financing.*
- *Consideration should also be given to some opening up of pension and life outflows to diversify risk and maximise return for investors.*
- *The government's poverty reduction strategy must pay maximum attention to improving labour skills, reducing transport and utility costs, and to combating the HIV/AIDS pandemic and protecting against climate-related disasters.*

Concluding remarks:

The project has been a resounding success, providing Malawi with reliable data on FAL stocks and investor perceptions and bringing it much closer to the IMF GDDS standards. The institutional structures and process of the survey have functioned well, and management commitment by government institutions has been strong (including funding 40% of expenditure). The project – especially timely reporting on the results and evidence of policy response – has also improved public-private sector dialogue.

Transfer of capacity has been highly successful, as 45 staff members from 6 institutions were trained in the methodology and can in future support software adaptation to national needs. Indeed, two Malawian officials are already working to help other countries conduct their surveys.

However, there are many priorities for further action in phase 2. One vital aspect is to implement a separate sub-project to revise the exchange control forms to improve monitoring of FAL flows, which was delayed in phase 1 by institutional changes. Others include streamlining the survey sample, broadening the private sector awareness campaign, and ensuring dissemination of each year's data within 12 months of the year end. Government also wants to introduce questions on corporate non-financial behaviour (see next article) and more detailed studies of private sector external debt and sectoral/regional imbalances, to ensure even greater policy impact of its recommendations, and to increase its funding of the project to 50%, in order to assure financial sustainability.

NEW DFI FOCUS: CORPORATE SOCIAL RESPONSIBILITY

At the DFI international workshop in March, 18 African and Caribbean countries and the regional organisations who support them decided that they should complement their efforts to monitor corporate external financing and perceptions of factors influencing the investment climate, by launching efforts to monitor corporate non-financial behaviour. These will assess private capital's contribution to national poverty reduction and sustainable development through social and environmental responsibility and sound governance. They are essential to complement the investor perception surveys via which governments find out which aspects of their policies need re-examination: they highlight areas in which government needs to promote greater corporate awareness of potential contributions to development and poverty reduction.

In taking this decision, the governments join a powerful international drive for more responsible corporate behaviour, led by a diverse group of stakeholders and joint public/private civil society initiatives:

- **International organisations** promote voluntary codes and standards for behaviour (ILO, OECD, UNCTAD, World Bank), and for transparent reporting (Global Reporting Initiative (www.globalreporting.org), International Standards Organisation (www.iso.org)).
- **Investment source country governments** are concerned with how their companies and fund managers behave internationally, to ensure their policies support development aims. Many therefore oblige them to report on non-financial behaviour and decision-making – Sweden and the UK monitor compliance with OECD codes for multinational corporations.
- **NGOs and lobby groups** are increasingly campaigning on these issues.
- **Consumers** attach greater importance to fairly traded products from sustainable sources.

- **Corporations** are therefore responding to consumer pressure, judging that any costs are outweighed by the positive impact on their reputation and demand for their products. Ethical fund managers are finding their portfolios performing well, and high demand for their funds. Many companies and ethical fund managers therefore report non-financial information voluntarily, setting standards for others.
- **Auditing companies** and research services are verifying company reports, conducting specific assessments requested by companies, or compiling information via surveys and other sources, to inform all stakeholders (notably the Ethical Investment Research Service (www.eiris.org)).

Methodology under the DFI Programme

DFI will focus on assisting countries in three ways:

- 1) Identifying the elements of non-financial behaviour that are most important to each country. These might include
 - **social responsibility** (impact of corporate activity on employees, customers, suppliers, partners, shareholders and the wider community through policies such as non-discrimination, health and safety, child labour, freedom of association)
 - **corporate governance** (policies on sourcing, relations with local investors, corporate corruption and bribery)
 - **environmental indicators** (e.g., emissions, water usage, waste) apply generally across all enterprises, and can be enterprise, region or sector specific.
- 2) Helping countries to decide how to assess each element. Based on EIRIS best practice, each of these can be assessed through the existence of written ethical codes, performance indicators and targets, performance assessment practices, efficacy of enforcement, and transparent reporting. However, while environmental standards are sophisticated and well established, those on social responsibility are much less consistent across sectors and countries.

➤ 3) Working out how best to source the information. The first step will be to establish how much information is available from other sources such as wider enterprise surveys, monitoring efforts by other government departments or regulatory authorities, NGOs, civil society, research organisations, and the international and national media, and larger companies' websites and annual reports. This is essential to avoid duplicating efforts and overburdening respondents. However, almost all of the countries present in Dar indicated that there was no systematic effort by their governments to monitor this information – which is why it is becoming an important part of

phase 2 of the DFI programme. DFI starts by asking companies 2 or 3 questions on the form about their governance structures with regard to existence and enforcement of codes. Once a need for additional information has been established on a particular issue, if it cannot be sourced elsewhere, it will be necessary to add questions to the DFI surveys. Of course, as the surveys will rely on companies reporting their own activities, they will need to be verified by cross-checking with other sources wherever possible. The governments will also ensure that, as with the foreign assets and liabilities surveys, the private sector is fully informed of the benefits for them of participation, trained and tested with pilot exploratory

questions to check responses, and supplied with comprehensive analysis at the end.

Monitoring CSRG is essential for national poverty reduction strategies. As a result, while countries will give top priority to improving responses and data quality for existing FAL and perception surveys, they are confident that by the end of phase 2 they will have been able to make major steps forward in getting companies to report on their non-financial behaviour.

DFI will upload CSRG training materials on its website in Q3 2002, and prepare a publication on the issues in Q4. For further information, please contact DFI, or access the links above.

TECHNICAL QUESTIONS

Are all multilateral creditors providing HIPC debt relief?

To date nearly all the multilateral creditors are providing HIPC debt relief, albeit in many cases not until countries reach their Completion Points. However, there are still a few of the smaller regional multilateral agencies that have yet to commit to participating in the Initiative. These include Arab Fund for Social and Economic Development (AFESD), Arab Monetary Fund (AMF), East African Development Bank (EADB), Economic Community of West African States (ECOWAS), Conseil de l'Entente (FECECE), Fondo Centroamericano de Estabilización Monetaria (FOCEM) and Eastern and Southern African Trade and Development Bank (PTA Bank). While the Islamic Development Bank (IsDB) has agreed to provide HIPC relief, it has not committed to do so in full for Burkina Faso. For full burden sharing to occur, these creditors, excluding the IsDB, will need to provide \$114 million relief in present value terms, 4.5% of total multilateral relief.

How is OPEC delivering debt relief?

For most countries, OPEC is delivering its share of debt relief by providing a new loan, on more concessional terms, which is to be used to service existing OPEC debt. The difference between the debt service of the existing loans and the new loan is the debt relief. Generally, the new loan, denominated in US dollars, carries an interest charge of about 1% (or 0.5% interest plus 1% service charge) and has 20 years maturity, with 5

years grace period. Using the average July-December 2001 CIRR rate, the grant element of the OPEC new loan is about 39% to 43%. In a few cases, it is also reducing the interest rate of existing loans. For many countries the terms of the new loan are similar to those of the existing debt. However it presents a PV reduction because the new loan has longer maturity than the remaining debt.

This method of providing debt relief means a country's nominal debt stock will rise (because of the new loan) and the reduction in PV terms will be small, unless OPEC will allow countries to use the new loan to buyback the existing debt, which is doubtful. So the main impact of debt relief delivered this way is on liquidity arising from lower debt service payments.

Are non-Paris Club bilateral creditors providing Paris Club comparable relief?

As highlighted in Newsletter 8, Algeria, Argentina, Brazil, Czech Republic, Egypt, Morocco, Slovakia and Thailand have been providing debt relief on Paris Club comparable terms and China (PR) has agreed to cancel all aid and military debts to African HIPCs. Although most HIPCs have embarked upon protracted, and usually unfruitful, negotiations with non-Paris Club bilateral, creditors some progress is being achieved, most notably:

- *South Africa has agreed to write-off all its Malawian debt, having already done so for Mozambique.*

- *Kuwait is providing interim relief on Cologne terms to Mauritania. But elsewhere in Burkina Faso, Cameroon and Uganda, relief has so far been only on Naples terms by rescheduling with 40 years maturity and 14 years grace.*
- *Saudi Arabia too is providing interim relief to Mauritania on Cologne terms, whereas Madagascar and Uganda have only received relief on Naples terms.*

To date inter-HIPC debt relief has included agreements between Côte d'Ivoire and Mali (rescheduling on Lyons terms), Honduras and Nicaragua, and Tanzania and Uganda (partial buyback at 85% discount). Although the amounts of inter-HIPC debt are relative small, totalling less than about \$12 million dollars in PV terms (of which the largest is \$8 million owed by Burkina Faso to Côte d'Ivoire), it would be a significant step forward if donor funds could be used to clear the remaining amounts. In addition, perhaps Commonwealth member governments could find a mechanism for clearing inter-Commonwealth debts of HIPCs, which are about \$36 million (according to the BWIs), owed mainly to India, Nigeria and Pakistan.

For more information on the types of terms available from each creditor, please see the private section of our website. If HIPC Debt Managers could keep us informed on the results of their country's negotiations with non-Paris Club bilateral creditors, then we would be able to continue using this column to ensure all HIPCs have information on best possible terms.

Debt Relief International

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