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SELF-EVALUATION: A NEW CBP CAPACITY-BUILDING TOOL

In October 2002, the CBP implementing partners launched a new tool to help HIPCs assess their needs for capacity building in debt management. This is designed to assist countries, capacity-building partner institutions and donors to make a comprehensive assessment of national debt management capacity and capacity-building needs.

The tool draws extensively on earlier methods used by MEFMI, WAIFEM and the Bretton Woods Institutions, as well as the CBP's previous methodology for evaluating country progress in debt management (see Publication No.6), and was sent to members of the CBP Steering Committee in August for comments. However, it has several new elements.

Advantages and Risks of Self-Evaluation

A key new element is a process of 'self-evaluation' by the countries. The countries conduct their own evaluation of capacity, and then submit this to CBP implementing partner organisations for validation. This has the major advantage of encouraging high levels of ownership by the countries. As reported in our last edition, HIPC Finance Ministers have endorsed the system and the sharing of its summary results with the international community. At a technical level, when the first exercise was undertaken in October 2002, in spite of a very tight response deadline, 75% of the 32 HIPCs contacted responded in time for results to be presented to the CBP Steering Committee in early November.

Obviously there are dangers of self-evaluation – that countries might overestimate their capacity in order to indicate that they are doing a good job; or underestimate their capacity in order to benefit from more external assistance in debt management. But it is precisely for this reason that the evaluation system uses precisely defined and objectively verifiable criteria, to encourage realism by the countries. As a result, when assessing the evaluations submitted in November 2002, the CBP implementing partners generally found the evaluations to be very realistic and of high quality.
Indeed an advantage of objectively measurable criteria is that they facilitate **consistent evaluation by different parties**, so that different parties applying the methodology at the same time should arrive at virtually the same conclusions. They also are **consistent across countries**, enabling systematic cross-country comparisons.

The Areas of Evaluation

The methodology assesses 14 areas to give a comprehensive picture of debt management, going beyond the core areas of HIPC CBP intervention in order to allow partner institutions to have a comprehensive system to evaluate the urgency of their non-CBP interventions. It also covers some wider areas, in order to monitor the other sectors that are essential to debt strategy formulation. The 14 areas are:

1. Legal and Institutional Framework for Debt Management
2. Human Resources Availability and Policies for Debt Management
3. Management, Supervision and Working Environment
4. New Financing Policy (Loans and Grants)
5. Disbursement of Loans and Grants
6. Recording of Loans and Grants
7. Debt Servicing
8. Renegotiation of Existing Debt
9. Macroeconomic Projections
10. Poverty Reduction Programming and Forecasting
11. Portfolio and Risk Analysis
12. Debt Strategy Analysis
13. Political Priority and Leadership on Debt Management
14. Public Transparency, Evaluation and Control of Debt Management

The Criteria for Evaluation

In each area of assessment, five criteria are established, measuring the key attributes which affect the effectiveness of debt management. In all operational areas, the fifth criterion relates to the quality of the outcome of debt management.

For example, the main criteria for renegotiations are:

1) The effectiveness of political and technical coordination for renegotiation;
2) Respect for laws/procedures for renegotiating debt and signing agreements;
3) Quality of analysis in country negotiation proposals/of proposals received;
4) Use of best international and national information to support negotiations;
5) Outcome: best available terms obtained based on international comparison.

For each criterion, a five-level ranking system is defined, from 1 to 5, with 5 being the highest (reaching ideal international standards). For example, for the criterion *Quality of analysis* under the area *Renegotiation*, the following ranking system is defined:

1= No analysis made
2= Very poor analysis made, no calculation of present value impact, consideration of wider debt portfolio or overall debt sustainability.
3= Reasonable analysis, including present value impact but not looking at wider debt portfolio or sustainability.
4= Good analysis, including PV impact, impact on existing debt portfolio and debt sustainability.
5= Excellent and comprehensive analysis, including PV, portfolio and sustainability impact, risk analysis, timing of relief and payment dates, impact of potential delays in agreement, and conformity with PRSP/development strategy financing needs

An average is then made of the scores for the five criteria to determine the rank for each area. The closer to 5, the closer the country is to the ideal international standard. For example, ranks for area 8 - Renegotiation might be as follows:

Renegotiation (average of five criteria)	**3.2**
Effectiveness of political and technical coordinating bodies for renegotiation	4
Respect for procedures for renegotiating debts and signing agreements	4
Quality of analysis of renegotiation proposals	3
Use of national/international information & documentation to support negotiations	2
Outcome: obtaining best terms available to the country	3

Once individual scores have been established for each of these areas, an average of the scores in the 14 areas is calculated in order to assess the overall capacity of the country in managing debt. For example:

Overall ranking of debt management capacity (average)	**2.6**
Legal and Institutional Framework	3
Human Resources	2
Management, Supervision and Working Environment	2
New Financing Policy	3
Disbursement	2
Recording	4
Servicing	4
Renegotiation	3
Macroeconomic Projections	3
Poverty Reduction Programming and Forecasting	3
Portfolio and Risk Analysis	1
Debt Strategy Analysis	2
Political Priority and Leadership	3
Transparency, Evaluation and Control	2

Other Features of the Evaluation

The new methodology also has several advantages over other evaluation systems:

- it does not focus on activities, such as the number of workshops or missions, or outputs, such as numbers of officials trained or number of computers acquired. Rather it addresses **outcomes**: the impact of activities and outputs on debt management capacity, such as the ability to generate more comprehensive and consistent debt statistics on a timely basis.
- All areas are judged **net of external technical assistance** to ensure genuine capacity building. For example, if a country is receiving assistance on debt renegotiation, reducing national officials to supplying data and information on past talks, area 8 would have a score of 1 regardless of any negotiating success.
- The evaluation also asks countries to **assess the priority** of each area. For example, if a country is not renegotiating its debt, area 8 would be a low priority
- It also asks countries to detail **causes of and solutions to any gaps in capacity**.

Application at the National and International Level

Different institutions and departments are involved in debt management, even in a centralised system. A debt unit may be responsible for servicing and recording the debt, an aid coordination department for negotiations and disbursements, and a research department of a central bank and a macroeconomic unit in a ministry of finance for macroeconomic projections. It is therefore impossible for one unit to complete the evaluation, so countries need to form a group of senior officials familiar with all the areas, either in an existing formal forum, or specifically for the evaluation. One unit can then aggregate the results and present the evaluation to a senior policymaker who can approve it and send it to the CBP implementing partners. Summary results (indicating only overall scores in each area for each country) and an overall analysis of the results will be presented by CBP implementing partners to the CBP Steering Committee Meetings in May and November each year. These will be used by the participating institutions to evaluate debt management progress, to provide advice to the CBP, and to mobilise political, technical and financial support for future capacity-building interventions.

Future Steps

The CBP is seeking to develop its products constantly to ensure that they are simple, transparent and relevant to HIPC countries and the international community. As such, the Debt Management Self-Evaluation Methodology will continue to be updated on a regular basis. It will also be adapted for evaluating capacity in other areas in the future, particularly domestic debt and private capital flows. Comments are therefore welcome from all parties. In particular, the methodology will be discussed in all CBP Executive Fora, Ministerial Meetings and national/regional/international missions and workshops to maximise its implementation by and relevance to the countries. Finally, the new evaluation methodology will be published by the CBP in the New Year. In the meantime, documentation on the evaluation methodology is available from DRI and the other CBP implementing partners.

RECENT QUESTIONS ABOUT DRI

It has recently come to our notice that people sometimes ask about DRI and DFI.

DRI and DFI operate on a not for profit basis, with all funds returning to donors if they are not spent. However, since we are funded by several foreign governments including the UK, we cannot under UK law be a charity. As a result, Debt Relief International Limited and Development Finance International Limited have been established as what is known under UK law as companies ‘limited by guarantee’. This is the UK equivalent of a not-for-profit corporation under US law, and they are accepted as non-profit organisations by UK authorities.

Limiting by guarantee also means that all of our funds and assets are the property of our donors unless they are spent on the purposes for which DRI and DFI have been established – to build capacity in developing countries. So we cannot transfer the execution of the CBP or the Private Foreign Capital Flows programme to any other organisation or sell the companies to anyone else. The two organisations are members of the DFI Group, which is merely a joint name for the two companies.

INSTITUTIONAL DEBT MANAGEMENT MISSION TO BENIN

BEAC/BCEAO Pôle-Dette and DRI conducted a mission to Benin from 25 November to 6 December 2002, in the framework of the special program for institutional capacity building in debt management. The main objective of this mission was to determine, in conjunction with the country's authorities, measures that need to be implemented to bring Benin's institutional debt management in line with international standards. To this effect, the mission focused on four critical areas, including (i) the country's debt management legal and institutional framework; (ii) coordinating debt relief with macroeconomic and financial policies and poverty reduction strategies; (iii) the strategic and operational management and the functional organisation of public debt; and (iv) evaluation and monitoring systems for the management of Benin's public debt.

1. Legal and institutional framework of debt management in Benin

To comply with international standards, a sound public debt management should consist in developing a strategy allowing the government to mobilise the necessary resources and to achieve its costs and risk objectives as well as all the other objectives set forth by government officials for sustainable development, poverty reduction and development of financial markets. In light of the insufficiencies noted in Benin's current debt management organisation, the mission suggested a number of recommendations that should help strengthen the country's legal and institutional debt management framework. These recommendations involve reforming the loan cycle and a number of legal and institutional measures that need to be implemented.

2. Coordinating debt management with macroeconomic and financial policies and poverty reduction strategic framework

Another objective of debt management is to help the public sector obtain appropriate resources to fund development and poverty reduction without compromising the country's financial stability and the economy's medium term sustainability. In this perspective, a coordination between debt management and macroeconomic policies should result in a permanent sharing of information between debt managers and decision-makers on issues such as the government's liquidity needs, the costs and risks associated with the public debt, the dynamics between debt management, budgetary and monetary policies and poverty reduction programs, the debt's medium and long term sustainability and, finally, the coherence between the management of the public debt and community programs of convergence and multilateral supervision within WAEMU.

After evaluating the coordination mechanism between debt management, macroeconomic policies and the strategic framework for poverty reduction, the mission recommended that the coordination be improved by:

- Strengthening coordination with regards to the management of HIPC resources necessary to fund the poverty reduction programme;
- Strengthening the mechanism for projecting or managing public accounts, which should allow to rationalise the issuance of public bonds;
- Making the timetable for reimbursing public debt consistent with the collection of budget revenue;
- Establishing a Permanent Technical Committee, under the Minister of Finance and Economy, that would be in charge of updating the debt sustainability analysis and offering technical guidance on each new borrowing prior to it being authorised and obtained;
- Developing a framework for medium-term public spending consistent with the objectives of poverty reduction, which will be the baseline framework for determining the broad orientations of economic policies and identifying constraints to sustainable public finances and debt while designing budget projections;
- Including public finance sustainability and debt sustainability analysis in WAEMU institutions' decision-making process.

3. Strategic and operational management and functional organisation of public debt

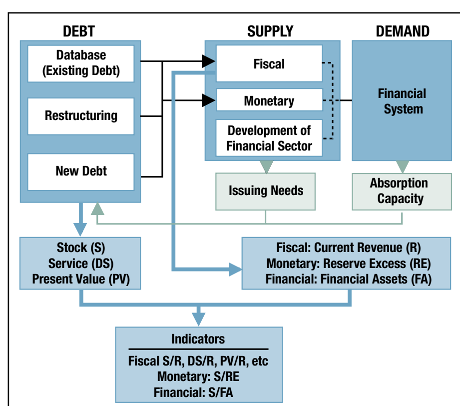
The current debt management organisation in Benin was assessed as globally adequate to allow the country to face its short-term financial needs and to meet the immediate objectives of debt management. However, it needs to be related to the financial changes affecting WAEMU's region (eliminating the Central Bank's direct loans to countries, developing a regional financial market and implementing the Monetary Stability Pact). A specific capacity building programme was therefore recommended to complement the reform of Benin's institutional debt management system. The mission recommended in particular that the middle office's role be strengthened in light of the reforms affecting the borrowing process to include the impact of debt sustainability while determining the government's budgetary objectives.

4. Evaluation and monitoring systems for the management of Benin's public debt

The mission's final recommendations focused on Benin's evaluation and monitoring systems. In order to reinforce the debt management system, it is imperative to plan mechanisms to evaluate and monitor corresponding activities through compulsory reporting from debt managers and the establishment of a monitoring system. The transparency of activities is one of the most important elements of a reform of the debt management system.

METHODOLOGY FOR DOMESTIC DEBT SUSTAINABILITY

Alongside the implementation of the HIPC initiative the eligible countries have been strengthening their capacity to carry out the debt sustainability analyses, which, as the initiative sets out, were focused on the extent of external debt. However, this approach only deals with one part of the debt problem and there is a growing belief that debt sustainability analyses should be global. In other words, they should include domestic as well as external debt[1].



Taking this need into account as well as the growing domestic debt of many of HIPCs, the Capacity Building Programme (CPB) implemented by DRI and regional organisations has been developing a methodology for analysing domestic debt sustainability, which will be explained in this article.

Main methodological features

Taking into account the reasons why a country contracts domestic debt – financing the fiscal sector, implementing monetary policy and developing the financial sector, which is the main sector demanding bonds – it is necessary to analyse each one of these sectors in detail as well as their interrelation. Apart from these three sectors, as is customary, significant attention should be given to the starting point found in domestic debt data.

The nature of contracting domestic debt means that the extent of debt is mainly measured in terms of the paying capacity of the public sector. However, as there are many ways of defining this concept and numerous difficulties when homogenising the indicators between countries, it is better and easier to link the burden of debt with the current public sector income or relevant sub-component, such as the Central Government. Furthermore, the public sector should honour the debt; financial requirements and sustainability of its accounts means that the fiscal sector plays the central role in the methodology.

However, in order to focus on the simulations of domestic debt and the analysis of the aforementioned sectors, once included in the simulation program external debt data, which includes the same amount of relief as most balance of payment lines, remains constant.

Once the main guidelines of the methodology are laid out, it is worthwhile to explain the graph, which highlights –in very simple terms– the approach applied. There are three main areas: debt, supply – which comprises the sectors generating the need to issue new bonds or domestic debt – and demand, which includes the financial sector and other components of the private sector requiring bonds. Continuous lines represent the direct relationship between areas, or sectors, and discontinuous lines represent the sector interrelations to guarantee coherent projections.

The debt box provides the stock and service data of the existing debt which should be incorporated in the initial fiscal and monetary sector (Central Bank) projections.

In the supply box, the fiscal sector comprises earnings, debits, as well as financing accounts. As the external sector was established as a constant, the earnings and expenditure projections determine the needs of internal financing for the non-financial public sector or the relevant aggregate (for example, the Central Government). At the same time, the monetary sector, set up by the Central Bank balance, establishes through liquidity projections the need to issue the net number of bonds destined for monetary policies. If they existed, these two sources of bond issuing would be added to the needs of bond issues in order to strengthen or develop the financial system. In this way, this box determines the supply of bonds at different periods. As highlighted by the graph, the discontinuous lines reflect the need for good coordination between specialists from the different sectors, considering that the data used in one sector may affect others. Specialists must also keep in line with the policies and target variables such as GDP growth, rate of inflation, depreciation, etc.

The demand box reflects private sector savings, through the financial system. After analysing the possibilities of channelling resources mainly to this sector, it determines the demand for public bonds. This demand is compared to supply to determine the amounts of bonds to issue for new domestic debt.

Issuing new domestic debt bonds affects the debt box and this in turn affects the fiscal and monetary sectors, which implies new financial requirements and demonstrates the need to iterate. As this is an ongoing process, the Debt-Pro© simulation programme is used, allowing the process to proceed automatically. To do this, current debt data, expected debt restructurings, amounts of new debt, as well as fiscal sector accounts are all incorporated into the programme. Monetary and financial sectors are calculated separately in order to review the consistency of variables such as inflation and development of the fiscal sector. The fiscal sector is used to average and calculate the needs for financing both external and domestic sectors.

Once simulations are executed in Debt-Pro©, the total debt data is calculated and compared to the various macroeconomic variables, then determining the principal indicators of debt. Their curves will allow us to determine whether the debt is sustainable.

It is necessary to emphasise that, due to the limitations of a short article, the following explanation only covers the essential aspects of the exercise that should be undertaken for the debt sustainability analysis. The explanation omits those aspects that should be considered in the analysis of each sector such as the inter-sector and global macroeconomic coherency tests[2].

As a result of the experience accumulated by the CPB in various events and the approach described, a regional workshop[3] has been designed for domestic debt sustainability analysis, of which structure is described below.

Workshop Structure

The event will take place over a period of 10 days. The first two days will be focused on key aspects of sustainable domestic debt and experiences of participating countries. During days 2-6, each country team will be divided into technical groups (Data Experts, Fiscal Sector Analysts, Monetary Analysts and Financial Sector Analysts) in order to carry out the following tasks:

- Check data coherence and adequacy
- Check and analyse recent domestic debt,

1 Some argue that short term external debt should also be included in addition to domestic debt. However, considering the aim of this article, this issue will not be dealt with.
2 These aspects are detailed in the workshop manual, in which the entire exercise is carried out.
3 The methodology of the regional workshop is also applicable to national events.
4 For the aims of the article, the term ‘dollarisation’ is understood as an important relation between liabilities of the financial system in foreign currency in respect to the total number of liabilities. It does not refer to, as is usually the case, the official adoption of a foreign currency replacing the national currency.

fiscal, monetary and financial sector trends
- Identify key indicators and relevant variables for domestic debt sustainability
- Forecast variables and establish the necessary financing of the fiscal and monetary sectors, and the development of the financial system
- Design basic and alternative scenarios for restructuring domestic debt and issuing new debt
- Train in the use of the Debt-Pro© package used in the analysis of debt sustainability.

From there the participants will be grouped by country to carry out the following:
- Execute the simulations of the different scenarios
- Execute the coherency checks on the three sectors analysed
- Analyse the combined results of restructuring and issuing of new debt scenarios and their effects on debt sustainability
- Draw up debt strategy document for national authorities
- Present results

Future Additions

The described methodology was developed for countries that almost entirely issue domestic debt in national currency, and in which foreign currency is not a substitute for national currency used for transactions or substantial deposits. This is not necessarily the case in some Latin American countries where the level of 'dollarisation' in their economies is very high[4]. Furthermore, various countries have liberalised their balance of payment balance accounts, which consequently have effects on the different sectors and which should be taken into consideration. In the case of domestic debt, special attention should be given to capital flows related to portfolio investment, because the former increase demand in bonds and especially tend to imply that this type of flows could be easily reversible, with the subsequent negative effect on financing the balance of payments. On the other hand, it is necessary to better specify the indicators depending on which fiscal accounts are used. That is to say, the indicators, numerical and denominative, vary if relating to total public sector, non-financial public sector, general government or central government.

The three specified aspects, as well as others, will be tackled in the following months in order to complement the current methodology and rely on the necessary parts of the analysis for the development of the Regional Latin American Domestic Debt Sustainability Workshop set for 2003.

HIPC INITIATIVE: WHAT OPTIONS CAN COME TO BEAR? IMPLEMENTATION EXPERIENCES IN MEFMI REGION

The initial reactions to the launch of the HIPC Debt Initiative in 1996 was that it was a comprehensive and concerted programme, marking a total break with past piece-meal external debt relief measures. However, no sooner had the Initiative been launched than it became apparent that its implementation and the delivery of debt relief would not only be relatively inflexible and at a fairly slow pace, but that its debt and poverty reduction impact would be less than expected. Despite the significant enhancements made to the Initiative at the turn of the millennium, the Enhanced HIPC Initiative has not been able to speedily and/or achieve fully its objectives of restoring external debt sustainability to the most Heavily Indebted Poor Countries (HIPCs), of which at least 75% are African nations. The persistence of post-HIPC external debt problems are testimony that debt relief on its own is not a sufficient guarantee to debt sustainability.

It is against this background and the concerns raised at various high-level fora with regard to the effectiveness of HIPC relief that this article relates the experiences of the MEFMI HIPCs, with the aim of provoking new thinking on what further improvements can be brought to bear on the HIPC Initiative in a manner that will help HIPCs attain debt sustainability and accelerate economic growth.

IMPLEMENTATION OF HIPC IN THE MEFMI REGION

The lessons of the implementation the enhanced HIPC in the MEFMI region indicate that the HIPC process is inadequate in delivering debt sustainability and has not assisted in accelerating economic growth. In particular, the non-compliance from some non-OECD creditors is a real problem as is the difficult issue of inter-HIPC debt relief. Furthermore, some creditors have been proceeding with lawsuits to achieve full recovery of debts owing and this has proved to be expensive in cases where Governments have lost in court.

Looking at the five HIPCs in the MEFMI region (Angola, Malawi, Tanzania, Uganda and Zambia), to date only two (Uganda and Tanzania) have reached completion point, although neither country has achieved long-term debt sustainability. In addition, both countries remain vulnerable to exogenous shocks, such as adverse weather conditions and deteriorating terms of trade for what are essentially un-diversified export or production economies. For Uganda, its three main products account for 63% of exports whereas in Tanzania the concentration of exports is lower at 40%. In Malawi and Zambia the concentration of exports are 75% and 67% respectively

Completion points for Malawi and Zambia are still pending and have been further delayed, owing in part to governance considerations. In addition, both countries are currently facing a severe drought that threatens to reverse poverty reduction efforts. Angola is considered potentially sustainable without HIPC assistance due to high oil prices.

More specifically, **Uganda** reached its decision and completion points under the Enhanced HIPC in February and May 2000, respectively. Nevertheless, given the deterioration of its export earnings and the underestimation, by the BWI, of the present value of debt, Uganda is unsustainable until 2007 with a PV of debt to exports ratio of more than 150%. On a flow basis, however, the debt service to exports ratio is below the 15% threshold, falling to below 10% by 2003. More positively, savings arising from HIPC debt relief have resulted in additional resources for social sector expenditures aimed at poverty reduction. Nonetheless, there still remains a need for increased resources for investment in transport and

infrastructure as well as increased private sector investment to accelerate growth and sustain poverty reduction.

Zambia qualified for HIPC assistance in December 2000 and in 2001 just over half of expected HIPC resources were forthcoming. While the situation has improved in 2002, there is still a need for creditors to provide relief in a timely manner. However, Zambia still faces increased debt service obligations in the years ahead and may therefore not attain sustainability in the near future. The problem is worsened by the recent events in the mining sector where the pull out of a key private investor has eroded investor confidence and cast doubt on the realisation of growth assumptions made during the decision point DSA. Furthermore, balance of payments support has declined sharply following the implementation of HIPC thus undermining expectations of sustainability.

What Options are possible?

For the HIPC Initiative to have a lasting impact, there are number of issues to be addressed.

- First, in principle countries are considered to be sustainable once they reach Completion Point with a PV/exports ratio of less than 150%. In reality, however, this is not always the case because not all debt relief is forthcoming, notably from some non-OECD and commercial creditors. There is therefore a need for international donor community to review this issue and provide for mechanism that will supply additional resources to ensure countries achieve long-term debt sustainability .

- Second, the failure to include domestic debt and contingent liabilities in debt sustainability analysis can lead to the situation whereby countries, with a heavily domestic debt burden, may end up using HIPC savings to reduce domestic debt, thereby undermining the amount of HIPC resources available for spending on poverty reduction. There is need to complement debt relief with aid inflows, to allow HIPC countries reach the International Development Targets by 2015.

- Third, there is a need to stabilise and increase export earnings of HIPCs through diversification. To achieve this, countries need to improve their investment climates and make the necessary investment aimed at accelerating economic growth. This in turn calls for additional support from the international community, including improved access to developed countries markets.

CAPACITY BUILDING FOR UGANDA'S DEBT SUSTAINABILITY ANALYSIS

***by Tisasirana K. Longino*[1]**

Despite having reached its HIPC Completion Point in May 2000 and 'exited' from debt relief, Uganda's debt burden remains unsustainable, with a PV/exports ratio in excess of 150%, in part because of the decline in export earnings following the collapse in international coffee prices. As result, Uganda, with the assistance of the Macroeconomic and Financial Management Institute of the Eastern and Southern Africa (MEFMI) and Debt Relief International (DRI), held a Post-HIPC Debt and New Financing Strategy Workshop in November-December 2002, with three main objectives: 1) to analyse external and domestic debt sustainability; 2) to design a comprehensive new financing strategy; and 3) to make recommendations for sustaining debt strategy capacity within the relevant public institutions.

The workshop identified capacity building gaps that need to be addressed and proposed solutions to strength further national capacity as follows:

- The first gap identified is the lack of an institutional framework for regularly updating debt strategy analysis. The solution proposed is for the Government to formally mandate a team of national officials from the Ministry of Ministry of Finance, Planning and Economic Development, Bank of Uganda and other key Ministries with responsibility for doing debt strategy analysis every six months in order for the results to become an input into the financing elements of the budget process;
- Formalising the institutional framework for updating debt strategy analysis should also lead to enhanced commitment to monitoring and co-ordination between the institutions involved in debt strategy, addressing the second gap identified which is the lack of monitoring and co-ordination of tasks. This could possibly be enhanced by establishing a central debt management unit with specific terms of reference;
- The third capacity gap is in the lack of access to relevant documentation and reference materials on donor/creditor policies and procedures. The proposed solution is to prepare a national compendium of donors and creditor policies and procedures;
- The fourth area is the fragmentation of data sources on external loans and grants, the different elements of the domestic debt, and poverty indicators, which complicated the task of compiling the necessary data for debt strategy analysis. The proposed solution is to improve data collection, computerisation of databases and data exchange among government institutions.
- Uganda faces another capacity gap with respect to understanding the specifics of debt strategy and the HIPC process in its public institutions. Capacity is limited to a few individuals creating a sustainability problem, which is aggravated by the movement of staff seeking higher remuneration, better job satisfaction and career changes. The proposed solutions include continuous training of public officers in all aspects of debt strategy analysis, including macroeconomic modelling, debt software manipulation, and poverty reduction analysis and costing. It is also proposed that debt management be 'professionalised' through the provision of teaching modules at local universities.

[3] Assistant Commissioner in the Ministry of Finance, Planning and Economic Development

HIPC Initiative and PRSP PRogress: December 2002

Country	HIPC II Dates		PRSP Dates		HIPC Initiative
	Decision	Completion	Interim	Final	Creditor Participation
Angola	no current timetable		1Q2003	…	…
Benin	7/00	1Q2003	7/00	2003	85%
Bolivia	2/00	6/01	2/00	6/01	95%
Burkina Faso	7/00	04/02	NA	7/00	88%
Burundi	…	…	…	…	…
Cameroon	10/00	4Q2003	10/00	2003	98%
Central African Rep.	2003	…	1/01	3Q2003	…
Chad	5/01	2003	7/00	2003	93%
Comoros Islands	2003	…	2003	…	…
Congo, Dem. Rep. of	1Q2003	2006	6/02	2005	…
Congo, Rep. of	…	…	…	…	…
Côte d'Ivoire	…	…	3/02	…	NA
Ethiopia	11/01	3Q2003	3/01	09/02	91%
Gambia	12/00	2003	12/00	07/02	81%
Ghana	02/02	2004	8/00	2003	89%
Guinea	12/00	2003	12/00	8/02	85%
Guinea Bissau	12/00	2004	12/00	2003	81%
Guyana	11/00	2003	11/00	09/02	91%
Honduras	7/00	2003	7/00	10/01	93%
Kenya	DSA done in 2002		8/00	2003	…
Lao PDR	no current timetable		4/01	…	…
Liberia	no current timetable		no PRSP process		…
Madagascar	12/00	2003	12/00	2003	91%
Malawi	12/00	2003	12/00	8/02	NA
Mali	9/00	2003	9/00	1Q2003	88%
Mauritania	2/00	6/02	NA	1/01	80%
Mozambique	4/00	9/01	4/00	9/01	88%
Myanmar	no current timetable		no PRSP process		…
Nicaragua	12/00	2003	12/00	9/01	86%
Niger	12/00	3Q2003	12/00	2/02	76%
Rwanda	12/00	2S2003	12/00	8/02	95%
São Tomé & Príncipe	12/00	2003	4/00	2003	85%
Senegal	6/00	3Q2003	6/00	12/02	79%
Sierra Leone	3/02	2004	9/01	2003	84%
Somalia	no current timetable		no PRSP process		…
Sudan	no current timetable		no PRSP process		…
Tanzania	4/00	11/01	3/00	12/00	90%
Togo	…	…	…	…	…
Uganda	2/00	5/00	NA	5/00	96%
Vietnam	DSA done in 2002		4/01	6/02	…
Yemen	6/00	…	2/01	8/02	…
Zambia	12/00	2003	7/00	05/02	97%

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.

Sources: IMF & World Bank

Key Debt Relief and New Financing Issues	Key Macroeconomic Poverty Reduction Issues
Preliminary DSA shows ratios under HIPC threshold after traditional relief	Staff-monitored programme, oil export price rises
Granted additional IMF interim relief	PRGF extended for 8 months, PRSP produced but not yet approved by BWIs
Debt service ratio higher at CP than at DP	New PRGF expected. PRSP implemented
First additional relief at CP, delivery being confirmed	PRGF on track, cotton price shock but higher gold prices
Build up of external arrears	IMF staff-monitored programme and emergency post-conflict
	assistance agreed in Oct. 2002
Difficulties negotiating with non-Paris Club creditors/lawsuits	Satisfactory though slow performance under PRGF. Delays in full PRSP
Preliminary HIPC document to be prepared	Political instability has driven PRGF off track
Difficulties negotating relief fron non-Paris Club creditors	Delays in PRSP. Cotton shock. Oil production expected in 2004
Preliminary analysis shows results above HIPC thresholds	IMF staff-monitored programme disrupted by political instability
Paris Club provided Naples Terms, multilateral arrears clearance	3-year PRGF approved by the IMF Board in June 2002
Timing of possible DP will depend on improved performance	Possible PRGF depends on improved performance. Oil export price rise
DP delayed because of civil conflict	PRGF approved for 2002-2004 but civil conflict causing problems
Difficulties with some Paris Club and non-Paris Club creditors	Full PSRP approved. Satisfactory PRGF performance. Drought and coffee shock
Still to sign Paris Club interim debt relief agreement	Full PRSP approved as well as 3-year PRGF
First Paris Club agreement reached in May 2002	PRSP being implemented. New PRGF negotiations ongoing
Receiving interim relief from PC, difficulties with non-PC creditors	Delays in PRGF implementation. Full PRSP endorsed in July
Risk of suspension of interim debt relief as off-track with IMF	PRGF off-track; delays in full PRSP completion
Only Lyons terms from PC; problems with commercial creditors	PRSP and new PRGF approved in September.
Likely to be sustainable at CP	Government currently negotiating a new PRGF
May apply for debt relief, but preliminary DSA shows ratios under	
HIPC thresholds so will receive Naples Terms	PRSP to be finalised soon. Coffee price shock and tourism collapse
DSA underway for decision on HIPC	PRGF review completed.
Accumulating arrears to creditor	No current IMF programme.
Difficulties negotiating relief fron non-Paris Club creditors	Discussions on PRGF continuing with new government
Problems with non Paris Club creditors.	Delays in PRGF. PRSP endorsed. Drought shock.
CP soon, difficulties with non-PC and commercial creditors	PRGF on track. Full PRSP. Cotton shock but higher gold prices
Problems with non-Paris Club creditors	PRGF on track
Non-Paris Club problems/lawsuit keep debt unsustainable	On-track with PRGF and PRSP
No WB lending since 1987. Probably unsustainable	No IMF programme since 1981-82
CP delay, Paris Club Cologne Terms in Dec 2002. Lawsuits	New PRGF approved in Dec 2002
Delay to CP	Final PRSP approved by BWIs. Cotton shock. New PRGF approved
Will be unsustainable at Completion Point. Problems with non-Paris Club comparability	New PRGF and full PRSP approved. Coffee shock
Paris Club interim relief only on Naples Terms	Staff-monitored programme. Oil export price rises
Receiving Cologne Terms from PC, non-PC problematic	PRSP endorsed. Delays in completing PRGF reviews
Interim assistance provided by PC. Lawsuits	PRSP expected mid-2003
Accumulating arrears to creditors	No current IMF programme
Accumulating arrears to creditors	No current IMF arrangement.
Problems with non-Paris Club and commercial creditors	Coffee exports shock. PRGF on track
No current prospect of debt relief	Greater political stability awaited before resumption of relations with BWIs
Debt unsustainable. Non Paris Club/commercial creditor lawsuits	Coffee exports shock. New PRGF agreement in September 2002
Preliminary DSA shows ratios under HIPC thresholds	PRGF review completed
Sustainable ratios under HIPC thresholds so ineligible, Paris Club Naples stock treatment	PRGF review completed
Paris Club relief in principle; problems with non-Paris Club	PRSP completed and PRGF on track. Drought shock

CBP ACTIVITIES FROM OCTOBER 2002 TO JUNE 2003

Uganda post-HIPC and new financing workshop

Burundi Institutional Mission
At the request of the Government of Burundi, a mission to Bujumbura, held from 14-31 October 2002, assessed the country's institutional debt management capacities. The objectives of this mission were:

- to evaluate the implementation of the recommendations resulting from the first HIPC CBP mission to Burundi in May 2001;
- to evaluate the institutional organisation of debt management, including information flows between all structures involved ;
- to assess the steps taken or planned to ensure the participation of Burundi in the HIPC Initiative;
- to prepare a capacity building programme to reinforce all structures of debt management and to train staff in the procedures and methods of the HIPC Initiative.

Since the 2001 mission, no major institutional improvement has occurred. The mission met with staff of all structures involved – from the Finance Ministry, Planning Ministry and Bank of the Republic of Burundi, trained them on the HIPC Initiative and its implications for debt management. The mission recommended increased co-ordination and staff training on debt management. The mission suggested a detailed programme for intensive assistance, including a national debt strategy workshop.

Institutional Mission to Nicaragua (with CEMLA)
A joint CEMLA/DRI mission visited Managua, in the Republic of Nicaragua from 14th October to 21st October 2002, to carry out a study of the institutional and legal framework used for the management of debt, placing emphasis on the operations carried out by the Treasury and Public Credit Ministry.

On the legal side, it was able to establish that the majority of the guidelines for good management of public credit have been included in the Project 'General Public Credit Law', which will soon be considered by the Congress. However, after passing the Law, the need for extensive work on its regulation is foreseen as well as the improvement of the co-ordination links between the different public sector authorities which intervene in the public credit operations. On the institutional side, it was established that there is a need to better define the roles of the different authorities involved in the management of debt within the Treasury, as well as the need to confront the issues of its suitability and strengthening in order to comply with the new law.

Follow Up Mission to Nicaragua (with CEMLA)
The joint CEMLA/DRI mission took place between the 14th and 21st October 2001 in response to the application for support by the Nicaraguan Government. The objective of the mission was to lend support to the Nicaraguan Government in the revision of its strategy in the upcoming negotiations with the Paris Club in order to obtain interim relief this group of creditors would grant within the HIPC Initiative framework.

The work, carried out in conjunction with the Nicaraguan civil servants, focused on the preparation of a debt relief proposal on the basis of a list of discussion points drawn up by the Nicaraguan authorities. In order to reach this objective the mission was structured into two stages. The first consisted of analysing the information from which the technical proposal for the Paris Club would be revised. The second comprised discussion and coordination with the authorities to compile a tentative proposal for the treatment of the different categories of debt with the creditors of the Paris Club.

Guinea Debt Capacity Building and Advisory Project (with ComSec)
The institutional mission conducted last June led the Guinean Government to request intensive capacity building assistance, which is being funded by Canada. A second mission took place in November. Its objectives were:

- to train the staff of the Debt and Public Investment Department (DNDIP) on basic debt concepts;
- to assess the interim Excel debt database and to start its update, on the basis of newly received information from creditors;
- to progress with the reorganisation of DNDIP by preparing a handbook of procedures and specific job descriptions;
- to update the project work programme; and
- to evaluate the possibilities of installing and operating CS-DRMS (ComSec's debt recording and management system) at the DNDIP.

The ComSec expert reconfirmed Guinea's choice of CS-DRMS as the best debt recording and management system for Guinea and advised on how to acquire the computing equipment compatible with the software; the said equipment should allow the networking of the database. The CBP mission made recommendations for improving co-ordination, continuing computing training of the Public Debt Division's staff, accelerating the collection of loan documents to update the Excel debt database by the end of March 2003.

Uganda Post-HIPC Debt Strategy and New Financing Workshop (with MEFMI)
This workshop, held in Kampala from 25 November to 4 December 2002, was designed to provide further training for Ugandan officials in all aspects of debt strategy analysis and to introduce the new methodology for designing an external assistance strategy. In addition to the 37 officials from the Bank of Uganda and Ministries of Finance, Planning and Development, Water, Lands and Environment, Education and Sports, Health, Local Government, Auditor General's Office and Parliamentary Budget Office who participated in the workshop, six of the resource people were national experts. The Updated Post-HIPC Debt and New Financing Strategy, produced at the workshop, shows that Uganda will have an unsustainable debt burden, on the basis of the PV/exports ratio, until 2007. However in liquidity terms, the debt service ratio is projected to be below 10% for the next few years. The analysis also examined the implications of domestic debt restructuring and shortfalls in donor aid inflows.

11th meeting of the HIPC CBP Steering Committee: some of our donor country representatives

Mozambique Follow Up Mission (with MEFMI and ComSec)

At the request of the Mozambican Government, a joint DRI/MEFMI/ComSec mission travelled to Maputo from 2nd to 11th December. The purpose of this mission was to follow up on the progress carried out since the Demand Assessment mission that took place in April, to start the preparations for the National Debt Strategy Seminar program for the second quarter 2003, and to assist the Government in updating the database and implement the HIPC debt relief into the individual loans.

The mission assisted Government officials in reviewing the database and left the necessary instructions so that the staff could continue the review. The mission was also successful in implementing the HIPC debt relief for the creditors for which the information was available. The mission had the opportunity to meet with Government officials in charge of debt management, poverty alleviation and macroeconomic projections. This was done to review the national capacity in order to prepare the team that will participate at the National workshop and a complete set of suggestions were left behind so that the preparations can continue during the first quarter of 2003. Because Mozambique has already concluded the HIPC process, the workshop will concentrate on designing a Post-HIPC debt strategy in order to remain sustainable for the medium and long term.

Institutional Missions to Benin and Chad (with Pôle-Dette)

In December 2002, two institutional missions were conducted to Benin and Chad. For Benin, see page 4.

The mission conducted to Chad is the 2nd institutional mission to that country. The 1st mission, in January 2002, formulated recommendations to enhance the legal framework of debt management in Chad. The December mission drafted legal texts relating to external resources mobilisation and public debt management as well as to the reorganisation of the Debt Studies and Monitoring Committee (COMECE). It also discussed provisional organisational charts for both the Ministry of Economy and Finance and Ministry for Planning, Development and Co-operation.

The draft decree on external resources mobilisation and debt management fixes the principle for a yearly governmental endorsement of a national debt strategy, approved beforehand by COMECE. The draft decree to reorganise COMECE reactivates the committee by revising its attributions, particularly in including its role in the development of a national debt strategy. Its composition is also re-examined.

In addition, the mission discussed the elements of a capacity building programme, in accordance with institutional reforms, to adjust Chad debt management to international standards.

Staff Attachment

Both WAIFEM and Pôle-Dette attached experts to IDM for further training in Debt-Pro©. Baba Musa from WAIFEM, at IDM from 15 to 26 October, received an enhanced training on the Debt-Pro Strategy Analyst© software, using Ghana debt database. Coumba Fall Gueye, from Pôle-Dette, trained at IDM from 25 November to 6 December. She enhanced her knowledge of the Debt-Pro Strategy Analyst©, and was also trained in the Debt Portfolio Manager©. This module is best suited for countries of which existing debt is sustainable.

Jaime Coronado Quintanilla, from CEMLA, was attached to DRI in November. The objectives of his attachment were, in particular, to review and revise the analytical tasks and templates, initially developed by DRI, for analysing and determining domestic debt needs for budget financing, monetary policy implementation and financial sector development

HIPC CBP 11th Steering Committee Meeting

This meeting was held in Yaoundé on 7th November 2002, hosted by the Government of Cameroon and jointly organised with BEAC/BCEAO Pôle-Dette. The proceedings of the meeting will soon be on DRI's website: www.dri.org.uk.

DRI and DFI Website Developments

HIPC CBP Technical Resources: the French resources were launched in October 2002, and will be followed by the Spanish and Portuguese versions in the first quarter of 2003. These pages currently include all HIPC CBP Debt Strategy, Debt Negotiations and Training for Trainers Manuals. DFI Private Capital Flows Programme: expanded section on Corporate Social Responsibility and Governance.

The **Frequently Asked Questions** have also been expanded and include key technical information on external debt data and strategy, such as how to find out the latest terms achieved by HIPCs in their negotiations with different creditors. These will be followed by domestic debt data and strategy, macroeconomic forecasting and poverty reduction during 2003. The Country Profiles continue to contain the latest situation of each country in the HIPC Initiative and PRGF/PRSP process, as well as contact details for all key managers of debt strategy in all of the HIPCs to enable them to exchange information via a network.

The DFI publication **'Private Sector External Debt: Main Issues and Challenges for Monitoring'** is now online. DRI's latest publication, **Key Analytical Issues for Government External Financing** will be available during the first quarter of 2003, including updated multilateral creditor loan terms and many details of creditor and donor procedures and policies. All publications will soon be available to download in the publications section of the 'Public' part of the website. Simply log on to 'http://www.dri.org.uk'.

HIPC CBP work planned from January to June 2003

- PALOP Institute: Demand Assessment Missions;
- Demand Assessment Missions to Comoros and Sudan;
- Debt Strategy Workshops in Angola, Burkina Faso, Burundi, Democratic Republic of Congo, Guyana, Mali and Mozambique;
- Institutional Management Missions to Benin, Bolivia, Congo Rep., Gambia, Ghana, Niger, Senegal, Sierra Leone and Tanzania;
- Regional/Inter-regional Events: 1st Inter-regional Debt Managers Meeting, MEFMI 2nd Training for Trainers Workshop, 1st Francophone New Financing Workshop, Latin-American Macroeconomic Forecasting Workshop, WAIFEM DSA Tools/Training for Trainers Workshop, CEMLA Domestic Debt Sustainability;
- Debt Advisors to Rwanda, Guinea (Canada funding), and possibly DRC and Burundi;
- Distance Learning Demand Assessment Missions to Bolivia, Cameroon, Malawi, Uganda and Zambia;
- 8th HIPC CBP Ministerial Meeting;
- 12th HIPC CBP Steering Committee Meeting.

DFI PROGRESS UPDATE

In the fourth quarter of 2002 DFI continued to assist countries to finalise their Phase 1 investor surveys. In addition, DFI and MEFMI conducted a series of demand assessment missions to countries preparing for Phase II, to evaluate their needs.

PHASE 1 COUNTRIES

- **Guyana, Malawi, Tanzania, and Uganda** have concluded Phase 1 and released their reports. Uganda's report is on the Central Bank of Uganda's website and can be accessed at 'http://www.bou.or.ug/PriSec_CapFlowsReport_060902.pdf'. Uganda's improved data has been included in the country's international reporting to the IMF.
- **Tanzania** has already launched its Phase 2 survey and has included producing its results as part of agreements with the Bretton Woods Institutions. A DFI/MEFMI demand assessment mission in October reviewed survey and non-survey reporting methods, and assisted in finalising and disseminating a Phase 2 proposal to donors.
- **Uganda** has finalised its proposal for Phase 2 and mobilised local financing from DFID-Uganda. A DFI/MEFMI demand assessment mission in October helped this process and preparations for an opening awareness and training workshop in January 2003.
- **Malawi** plans to launch Phase 2 in March and DFI/MEFMI will conduct a demand assessment mission in January to determine what assistance will be required.
- Staff turnover delayed work in **Guyana**, but the team is drafting a proposal for Phase 2.
- **The Gambia** is finalising its report, to be published in the first quarter of 2003, and beginning to prepare proposals for Phase 2, focussing especially on capturing loan-by-loan PSED, which will be finalised in a demand assessment mission by DFI and WAIFEM next April.
- **Trinidad & Tobago** held its closing workshop in December 2002 (see box).
- **Zambia's** response rate is over 80%. A follow-up mission was conducted in November to ensure that Zambia is on track for a closing workshop in February 2003.
- **Ghana** had a high (66%) response rate to its re-launched survey, and a follow-up mission in November assisted with the closing stages of implementation and training in software, data analysis and report writing. It will hold its closing workshop in March 2003 with DFI and WAIFEM, and finalise its report and plan its entry to phase 2 thereafter.

NEW ENTRANTS

- Following a formal request for assistance from **Lesotho**, a DFI/MEFMI demand assessment mission in October identified a number of challenges in PCF monitoring in **Lesotho**, including shortage of human resources, and the dominance of links with South Africa, which will require further tailoring of methodology. Lesotho is currently preparing a project document and is scheduled to begin its sensitisation and training in April, and launch its survey in May 2003.
- **Kenya** has already conducted extensive preparations for BoP surveys, especially on sensitising the private sector, with assistance from donors and the BWIs, but a demand assessment mission in October found that it needs further assistance and funding for executing the surveys, and Kenya has requested DFI to provide refresher training and other technical support, and assist in seeking financial support from donors.
- **Mozambique** has also requested assistance from DFI, resulting in a demand assessment mission in December. Mozambique is about to launch a set of BoP surveys and update its non-survey reporting mechanisms, because it has very large private capital flows and government, donors and the private sector agree on the need to monitor and analyse them. However, it needs assistance in sensitisation, training and implementation of the methodology. Subject to government approval, Mozambique could join the programme in the second quarter of 2003.

MORE RESULTS: TRINIDAD & TOBAGO

Trinidad & Tobago has for some years been conducting quarterly FAL surveys, but joined the programme to expand its surveys to IIP and PSED and improve its methodology, starting with the survey for second quarter 2002. The results reveal that private capital inflows dominate foreign financing. Private capital stocks form a significant part of external development financing, at 78% of GDP. They lack sectoral diversification, being largely concentrated in the energy sector. FDI (largely in long term direct equity) makes up the bulk of flows and stocks. Source countries are dominated by the US (two-thirds) and Germany (a quarter).

Due to the survey, the authorities were able to directly estimate the IIP and PSED for the first time. Preliminary data show a net deficit position with the rest of the world, with external liabilities at US$8.6 billion and assets at US$3.1 billion. PSED stocks were US$1.3 billion or 15% of GDP, made up of one third unrelated borrowing, one third commercial bank foreign liabilities, and one quarter borrowing by subsidiaries from parent companies. PSED has mostly long-term maturities and relatively low interest rates.

On investor perceptions, about 70 per cent of respondents plan to increase investment, largely to improve staff training and introduce new technology, over the medium term. The main initial factors which attracted investors were political stability, proximity to domestic markets, the low cost of doing business and a skilled labour force. Current positive factors are the stable exchange rate, proximity to home markets, and the efficiency and high

technology of banking services. Current negatives are the political climate, public sector bureaucracy, crime and corporate taxes.

As a result of the Phase 1 project, Trinidad and Tobago now feels that it has the capacity to conduct virtually all training in-house, and will fund all of the execution of its surveys under phase 2, requesting external attendance only at one refresher workshop in 2003.

Methodology, staffing and information products

DFI has continued to improve its methodology, by:

- Adding corporate social responsibility questions to surveys in Tanzania and Uganda.
- Enhancing the generic FAL data entry and analysis software in Access©, based on user feedback.
- Drawing up new guidelines for up-rating data and for enhancing sensitisation methods.
- Placing much more focus on non-survey methods and on streamlining and coordinating data collection efforts among government agencies, donors/international organisations and the private sector

Another 30 national officials joined the DFI private website in the last quarter, reflecting the accelerating pace of additions to the website materials on foreign private capital. However, typically only 2 or 3 people in each national institution have signed up to the website and, in the interests of the broadest possible access, existing members are encouraged to recommend to their colleagues that they apply to DFI for their own passwords.

DFI is moving ahead rapidly with publications on its FAL methodology and on the implementation of monitoring and analysis which are due in the first half of 2003, and is beginning to summarise the findings of phase 1 country projects for publication in book form.

Liaison with co-operating partners and donors

DFI has continued to increase cooperation with its regional partners (CEMLA, MEFMI and WAIFEM) in implementing country projects, through their participation in demand assessment missions and workshops. However, the top priority now is to finalise the Phase 2 project document in cooperation with regional partners and donors, so as to put cooperation on a clear path for the next 3 years. At the 11th HIPC CBP Steering Committee, in Yaoundé in November, donors and partners held preliminary discussions on a revised Phase 2 programme document, and a full meeting to finalise the document will be held at the end of January 2003.

DFI PHASE 2: COUNTRIES TARGET QUALITY INVESTMENT

Four countries are finalising proposals to stakeholders for Phase 2 of the programme: Malawi, Tanzania and Uganda participated in Phase 1, and Kenya is a new entrant.

Stronger National Ownership

Recognising the dominant role of the private sector in development each country has demonstrated strong commitment to strengthen its capacity to monitor private capital, and to analyse its sustainability and macroeconomic linkages.

Malawi, Tanzania and Uganda all established or strengthened institutional structures for Phase 1, rationalising duplication in data collection from the private sector. These clear institutional arrangements ensured that the countries met their goals in Phase 1 of the programme. In Phase 2 they intend to move further in this direction and in coordinating IFI and donor initiatives. Uganda for example has established a permanent unit within the central bank to lead implementation, and has cut government surveys of FAL and private sector perceptions from 3 to 1. Kenya is looking to enhance intra-government coordination with clearly defined roles for each agency with support from the IMF, COMESA, donors and DFI, in order to ensure the same degree of success. All four countries have also adopted the review recommendation of consolidating institutional structures through formal memoranda of understanding or statistical strategic plans based on capacity constraints identified, and are also reviewing the efficacy and application of the legal framework.

Reflecting the capacity built to date, national staff will assume greater responsibility for training in Phase 2, with support and evaluation of capacity by DFI and MEFMI. This will be facilitated through an early training-for-trainers event coordinated by DFI and its partners.

Countries are also committed to coordinating more fully at a political level, to ensure that data are published and adopted for policy purposes. This is already happening in Malawi, Uganda and Tanzania, where governments are promoting and using data produced by the programme in policy formulation at the level of ministers and governors, and the IMF is approving this improved and more detailed data for incorporation into its time series. DFI and its partners will assist this process by developing tools for splicing and up-rating data.

In line with the programme goals, Phase 1 countries are increasing their financial contributions with the aim of covering almost all costs by 2005. Malawi is contributing 60% to the next survey, Tanzania 35%, and Uganda 42%.

Methodological Priorities for Phase 2

Countries will continue to track all private capital in line with BOP and IIP standards. They will continue to use surveys but will also improve non-survey sources such as bank, bureaux and exchange control reporting. Having found problems similar to those in OECD countries, countries are also aiming to improve data quality on the market value of equity and investment income, and to improve recording of trade credits, and foreign assets. They will further develop techniques established in Phase 1 to address data weaknesses due to deliberate or accidental mis-reporting. The countries also wish to move forward in meeting GDDS standards (see article on page 14), especially for frequency and timeliness, by launching surveys earlier in the year.

In Phase 1, countries found high private sector external debt (PSED) levels, with a short maturity structure and highly flexible terms and conditions, indicating that it could exit with far greater ease and speed than FDI theory suggests. Tanzania and Uganda are therefore moving to monitor PSED on a loan-by-loan basis, and Malawi and Kenya will consider this approach depending on the scale of aggregate data yielded in their next surveys.

Based on better quality data, countries will seek to diversify their risk and enhance the

development impact of FDI by targeting particular source countries, sectors and regions for investment promotion. Malawi, Tanzania and Uganda will ask more detailed questions on these issues to identify better targets. Tanzania is also including Zanzibar in the survey for the first time, which should identify much more investment in tourism and transport. Kenya also wants to focus on investment in infrastructure. Countries are tailoring their forms and sampling frames to meet these requirements, while keeping the same basic design to allowing cross-regional comparisons.

While Phase 1 focused mainly on foreign investors, Tanzania, Kenya and Uganda have decided in Phase 2 to widen their samples to collect data from local investors. This is in recognition of the need for policy to complement rather than crowd out domestic savings and investment, and to promote linkages between foreign and local investors, but also of the fact that many apparent 'local' investors have foreign assets or liabilities.

All countries attach high priority to strengthening public-private relations and dialogue in order to improve response rate, data quality, and feedback of results to the private sector, thereby enhancing government decision-making. This implies much closer consultation and coordination with private sector bodies in national taskforces, more training of private sector staff, improving and tailoring the tools and analysis to the needs of the target private sector audience, ongoing tracking of investor perception and investment sustainability, and more targeted dissemination via media, government, donor and private sector channels.

Finally, Malawi, Tanzania and Uganda have all decided that they want to begin monitoring corporate non-financial behaviour and governance, to identify ways in which private sector activity impacts on society and the environment as well as the economy. This will allow them to define ways in which public and private sectors can work together to achieve national and international goals for poverty reduction and development.

DFI: RAPID PROGRESS TO INTERNATIONAL STANDARDS

1) International standards – the GDDS

International and national demand for accurate and timely information on private capital flows, to inform investor and macro-policy decisions, increased dramatically in the 1990s, due to globalisation and domestic liberalisation; increased private capital flows to developing countries, and the need for transparency to avoid financial crises.

Reacting to these factors, the IMF, EC, OECD, UN and World Bank introduced in 1993 revised and harmonised standards on the national accounts (System of National Accounts - SNA) and balance of payments (Balance of Payments Manual 5th Edition – BPM5), which are now used by 144 countries. After the Mexico crisis, the IMF initiated a Special Data Dissemination Standard (SDDS) in 1996. This is a benchmark for countries that are planning to borrow on international capital markets, to provide key economic and financial data to the public. It also established the General Data Dissemination System (GDDS) in 1997, to assist countries to develop their statistical frameworks and improve data quality and dissemination to stakeholders, with the aim to work towards SDDS. GDDS and SDDS cover the real, financial, fiscal and external sectors, and broad socio-demographic data.

The GDDS external sector standards include all of the main aggregates of the BOP, including current and financial accounts, external debt and debt service, international reserves and exchange rates. They also 'encourage' compilation of the International Investment Position (IIP) – see box - and Private Sector External Debt (PSED) statistics. The GDDS provides a comprehensive framework for participating countries. Countries are expected to achieve data guidelines for reporting to the national and international community, in terms of coverage, periodicity, timeliness, and data integrity and dissemination. Thirteen pilot countries assisted with the design of the GDDS, including The Gambia and Uganda. Currently 52 countries have signed up to participate in the GDDS, including The Gambia, Kenya, Malawi, Tanzania, Uganda and Zambia among those countries participating in the DFI programme.

The IMF has an extensive GDDS outreach and information programme. Its homepage can be accessed at 'http://dsbb.imf.org/gddsindex.htm'. DFI liaises with its regional coordinators in Anglophone and Lusophone African countries on the timing and content of its support. GDDS also has an office covering its Francophone West African countries.

Reporting the IIP

The IIP is the stock position of a country's external assets and liabilities, and is very important for vulnerability assessments. In 1995 an IMF survey found that developing countries find compiling IIP data difficult, as they lack reliable data on private sector investment positions. This indicated a need to develop new surveys, secure greater intergovernmental cooperation and resolve difficulties in estimating the market value of some international assets. In 2001 the IMF's Statistics Department (STA) initiated an outreach program, writing to central bank governors and the heads of statistics agencies to encourage IIP reporting. By the end of July 2002, 80 countries were reporting IIP data. Tanzania is among those countries reporting comprehensive data, and Lesotho and Uganda are reporting partial data. The STA is currently finalising a guidance paper on International Investment Position: A Guide to Data Sources. This will provide practical guidance on compiling the IIP and will be distributed to all those countries that do not report IIP data.

2) Country Progress under the DFI Programme

The DFI methodology designed in cooperation with countries and regional organisations such as CEMLA, MEFMI and WAIFEM, is entirely compatible with GDDS and BPM5, and also covers the 'encouraged' collection of IIP and PSED. However, the methodology is tailored to individual country priorities and needs, mainly in allowing them to go beyond GDDS to collect more detailed data.

Table 1 indicates country compliance with **coverage and quality of data** before and after Phase 1 of the DFI programme.

Before the DFI programme, most countries were dramatically under-estimating FAL because they were relying on estimates or small sample surveys, and had little or no available data on the IIP or PSED. Many of the necessary components went unmonitored – for example FDI retained earnings and inter-company transactions, private borrowing and trade credits. Countries were either on BPM4, or moving to BPM5.

The DFI programme coincided with a major drive by the IMF to promote the new standards and supply standard methodology to countries. As a result of efforts by all sides, countries now have information on all private sector financial transactions in the current and financial accounts of the BoP, as well as on PSED and IIP. This was

Table 1: Coverage and Standard regarding Private Sector Financial Account		
Country	**Coverage Pre-Phase 1**	**Coverage Post-Phase 1**
The Gambia	Estimates from secondary sources. BPM4.	FAL flows/IIP through surveys and non-survey sources. BPM5.
Ghana	Investment Promotion data, private sector interviews, loan agreements.	FAL flows/IIP through surveys and non-survey sources. BPM5.
Guyana	BOP/IIP sample surveys, indirect sources, loan approvals. BPM4.	FAL/IIP through wider sample surveys. Moving to BPM5.
Malawi	Private sector interviews, exchange controls, stock exchange. BPM4.	IIP through surveys and flows through non-survey sources. BPM5.
Tanzania	TIC approvals, privatisation sales, bank reports. BPM5.	FAL flows/IIP through surveys and non-survey sources. BPM5.
Trinidad & Tobago	Sample BoP surveys. BPM5.	Wider sample of FAL flows/IIP through surveys and non-survey sources. BPM5.
Uganda	Estimated based on UIA approvals, privatisations and bank reports. BPM5.	FAL flows/IIP through surveys and non-survey sources. Loan-by-loan PSED. BPM5.
Zambia	ZIC pledges, privatisation sales, banks and bureau reports. BPM5.	FAL flows/IIP through surveys and non-survey sources. BPM5.

Source: DFID Review of Phase I and Country Authorities

obtained through comprehensive surveys with average coverage rates over 80%, and by improving non-survey reporting mechanisms including direct reporting by stock exchanges and sectors, money and banking data, and exchange control forms. They have also collected large additional amounts of information through investor's perception surveys, going beyond GDDS in order to assist policy formulation and public-private sector policy dialogue.

Table 2 shows the performance of DFI countries with regard to GDDS standards for **periodicity** (collecting data annually) and **timeliness** (with a 6-9 months lag between the reference point and data dissemination).

Before Phase 1, all countries produced data within 6 months of the reference point and on an annual basis, because it was based on highly unreliable estimates. After phase 1, they continued with the same periodicity as before, all meeting or exceeding the annual GDDS target. However, due to the novelty and technical demands of the exercise, as well as delay in response by the private sector, timeliness slipped back to average 16 months for Phase I countries. Nevertheless, the improvement in data quality was seen by all countries as well worth the delay.

- **Data Integrity and Access to Data by the Public** – the GDDS recommends that participating countries report on the terms and conditions under which data are produced and disseminated; identify internal government access to data before release; identify ministerial commentary on the occasion of statistical releases; and provide information about revisions and advance notice of major changes in methodology. Also, it recommends dissemination should occur through simultaneous release to the public, and via advanced release calendars.

One of the key concerns of the DFI programme is data transparency and integrity. All countries therefore provide full details of the terms and conditions for data production and dissemination, in questionnaires, on websites and in final programme reports. The terms and conditions include Central Bank, Statistical and Investment Acts, as well as exchange controls legislation. These provide the legal mandate to collect external data from the private sector, but also the obligation on compiling institutions to protect individual company data confidentiality. There is no internal government access to or interference with data compilation, analysis or dissemination. The preliminary results are typically released during a closing workshop of key private and public sector officials, and donors, in which Ministers or other senior officials make full public comments on the data. The final report is disseminated through relevant publications of the Central Bank and Investment Agency, which are available to all respondents, the media and the public, and posted on Central Bank websites.

Table 2: Data Periodicity and Timeliness		
Country	**Post-Phase 1**	
	Periodicity	**Timeliness**
The Gambia	Annual Actuals	20 months
Ghana	Annual Actuals	24 months (estimated)
Guyana	Semi-annual	9 months
Malawi	Annual Actuals	16 months
Tanzania	Annual Actuals	24 months
Trinidad & Tobago	Quarterly	6 months
Uganda	Annual Actuals	14 months
Zambia	Annual Actuals	14 months

Source: DFID Review of Phase I and country authorities

3) Country Plans for Improvement during Phase 2

- **Coverage** – Countries plan to improve survey methodology, by refining and narrowing their samples; simplifying forms and definitions; focussing more on banks and other selected sectors; and introducing surveys on pension and life assurance companies where relevant. Non-survey reporting mechanisms will also be further expanded, covering for example regional stock exchanges and comparisons with international data sets (e.g. BIS). Most countries will focus more on PSED, with some going for loan-by-loan methodology. Countries want to focus more on data splicing and up-rating, and on refining investor perception questions to further reflect national priorities and to investigate important analytical findings. Most countries are continuing to explore the area of corporate social responsibility, particularly corruption, labour, health and the environment.

- **Periodicity and Timeliness** – Most countries will initially stay on annual periodicity to consolidate the methodology and response rates. Over the medium term, countries will move to more frequent surveys, resources permitting. Countries are determined to improve timeliness, to ensure policy relevance and meet international standards, by publishing data within 6 months of the reference period by the end of Phase 2. Tanzania and Uganda are hoping to move rapidly to this target by launching their surveys at the end of 2002 and the start of 2003.

- **Data Integrity and Access to Data by the Public** – Countries plan to strengthen their legal frameworks, making legislation consistent between Central Bank and Statistical Acts, and formally delegating authority to Central Banks. Increased coordination, as well as private sector and donor demand, has led national task forces to work towards committing to advance release calendars.

TECHNICAL QUESTIONS

How does the IMF calculate the concessionality for loans for new borrowing limits in IMF programme?

Most IMF programmes in HIPC countries have a ceiling on new non-concessional borrowings, which are defined as loans with a grant element of less than 35%. However, the discount rate used by the IMF to calculate the grant element of new borrowings is not the same 6-month average rate used by the BWI to calculate the present value of debt for the HIPC Initiative. Instead it is an average CIRR rate plus a margin, which varies with the maturity of the new borrowing, as set out in the following table.

Discount Rates used by IMF for New Borrowings

Maturity of new borrowing	Base CIRR rate (%)	US$ CIRR (%)	Margin (%)	Discount rate (%)
Less than 15 years	6-month average	5.86*	0.75	6.61
15-19 years	10-year average	6.87**	1.00	7.87
20-25 years	10-year average	6.87**	1.15	8.02
30 years or more	10-year average	6.87**	1.25	8.12

* Average Jan-June 2002 ** 10-year average to October 2002

For new borrowings with a maturity of less than 15 years, the base CIRR rate is the 6-monthly average rate, which is the same rate used in the present value of debt calculation for the HIPC Initiative. However for longer-term debt the base CIRR rate is the 10-year average rate, which can be significantly different from the 6-monthly average as shown in Table above for the US dollar. In the case of UK pounds, the latest 6-month average CIRR rate is 6.17% compared with the 10-year average rate of 7.47% whereas for the Japanese yen, the 6-month average is 1.69% compared with the 2.80% average over ten years.

In computing the grant element of a new borrowing, the discount rate used can make a significant difference and tip the balance between a concessional and non-concessional new borrowing. For example, a loan of $100 million, with a maturity of 25 years, 3 years grace and an interest rate of 2.75%, has a grant element of 40.1% when using the IMF discount rate of 8.02% whereas using the latest 6-month average CIRR rate the grant element is 27.4%. So on the basis of the IMF calculation, the loan is concessional and contracting it will not breach any non-concessional new borrowing limit. However using the HIPC present value calculation, the loan is clearly a non-concessional borrowing and would be in breach of any new borrowing limits.

The CBP can supply HIPCs with a template spreadsheet enabling them to do these calculations.

How is the grant element of a mixed credit calculated?

Some lenders offer countries a mixed credit that is a package of grant (or concessional loan) and non-concessional loan (usually an export credits) funds combined so as to yield an overall grant element that is just permissible within the Government's ceiling. Since a mixed credit is a combination of two types of funding with different grant elements, the grant element of the package is calculated by weighting the grant elements of each component in proportion to its share in the total amount. So, for example, a mixed credit made up of a grant, with a grant element of 100%, and a non-concessional loan, with a grant element of say 25%, will have an overall grant element calculated as follows:

$$\text{overall grant element} = 100\%\times\frac{\text{grant amount}}{\text{total amount}} + 25\%\times\frac{\text{loan amount}}{\text{total amount}}$$

In fact, you can use this formula to work out the proportion of grant and loan funding needed to achieve a 35% grant element, for a given set of loan terms and grant element. Let G = grant amount, L = loan the amount and (L+G) = total mixed credit amount, and the formula above becomes:

$$35\% = 100\%\times\frac{G}{L+G} + 25\%\times\frac{L}{L+G}$$

By re-arranging the formula, 10L=65G and so the proportion of loan to grant financing in the mixed credit is 6.5:1. So for every $1 of grant money being provided in the mixed credit, there is $6.50 of non-concessional loan financing.

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