

***Publication No. 6***

# **HIPC CAPACITY-BUILDING NEEDS**

**Matthew Martin and Juan Carlos Aguilar Perales**

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## Foreword

This publication series has been launched in response to the increasing number of requests *Debt Relief International (DRI)* has received for information on the activities of the *Heavily Indebted Poor Countries (HIPC) Initiative Capacity Building Programme (CBP)* and on the technical aspects of debt analysis and negotiations needed to develop and implement national debt strategies. The aim of the HIPC CBP, funded by five European governments (Austria, Denmark, Sweden, Switzerland and the United Kingdom), is to build and strengthen the capacity of HIPC governments to develop and implement their own national debt relief strategy, and a new borrowing policy consistent with long-term debt sustainability, without having to rely on international assistance. DRI is its non-profit implementing organisation.

This series arises from DRI's experiences of working with 32 HIPC countries and in particular conducting national, regional and international workshops on debt strategy, debt negotiations, macroeconomic forecasting and poverty reduction. It is targeted mainly at senior officials and policy makers in HIPC countries, but it will be useful for officials of regional African, Asian and Latin American organisations, NGOs and academics in developing and developed countries.

The aim of the series is to present particular topics in a concise, accessible and practical way for use and implementation by HIPC governments. The series should enable senior officials and policy makers to focus on some of the key issues relating to long-term debt sustainability, macroeconomic forecasting and poverty reduction in HIPC countries. Each publication is intended to be reasonably self-contained.

The views expressed in the publications are those of the authors and not necessarily those of the HIPC CBP donors.

We welcome any comments on this publication or suggestions for other topics to be included.

Alison Johnson  
Publications Editor

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## I. INTRODUCTION AND CONTEXT

Debt Relief International (DRI) is the executing agency for the HIPC Debt Strategy and Analysis Capacity-Building Programme, an intergovernmental programme funded by the governments of Austria, Denmark, Sweden, Switzerland and the UK. It aims to build the capacity of HIPC governments to conduct their own debt sustainability analyses, design their own debt strategies, construct their own poverty reduction plans, and play their full role in the tripartite process of assessing eligibility for and implementing relief under the HIPC Initiative.

This programme, started in July 1997, is the only programme providing capacity-building across the range of areas covered by the HIPC Initiative. As a result, it is now assisting 32 HIPCs through training seminars, institutional reinforcement and short-stay capacity-building advisers. Its mandate has been renewed (and its funding doubled) through to December 2001, on the basis of a highly positive independent mid-term review.

Based on its experience, DRI has identified capacity building needs of HIPC governments which go further than conventional debt management, because countries need to reinforce their capacity to make macroeconomic projections and to design poverty reduction action plans in order to ensure that their debt is economically sustainable in the longer term and that the savings from debt relief are spent efficiently on poverty reduction.

Under its programme, DRI conducts 'demand assessment missions' during which it evaluates the demand of the HIPC for assistance, and agrees with the HIPC government on measures to be taken, with external assistance where necessary, in the following seven areas, all of which are essential to full national leadership of the HIPC process:

- institutional and legal structures for debt management;
- debt data recording;
- debt renegotiation (Paris Club, non-OECD bilateral, commercial, multilateral);
- new borrowing policy (rules, procedures, policies, implementation);
- macroeconomic data and projection capacity;
- poverty reduction policy design (principles, costing) and implementation;
- ability to combine all of the above into computerised debt sustainability analysis, strategy formulation and implementation through negotiation.

Following such missions, DRI provides regular events (workshops, follow-up missions) at which countries receive training and capacity-building assistance in specific areas, and can evaluate their progress in implementing the recommendations of initial missions.

DRI also assesses semi-annually the degree of progress in improving debt management and poverty reduction in each participating country, and the political commitment to improving debt management and poverty reduction by senior policy-makers. It reports these assessments to its donors and shares them with the HIPC governments when appropriate.

## II. METHODOLOGY OF CAPACITY ASSESSMENTS

The methodology of assessment is that each country is ranked on a 1 to 5 scale (5 high) for each of the following specific areas:

### 2.1 Institutions

Experience across many countries indicates that there is no a priori superior institutional structure for debt management. In some countries, it has been possible to centralise all core debt management functions in one agency, but most countries spread them among different agencies (for example, private sector debt monitoring by the Central Bank or negotiation of new borrowing by the Planning Ministry). Analysis of the macroeconomic sustainability of debt, and how to spend debt savings on poverty reduction, requires more units to be involved.

Whatever the division of labour, an efficient institutional structure should meet four key criteria:

- clear legally defined functions of all agencies, which cover all executive, management and technical functions while minimising duplication, and which are flexible and practical (rather than bureaucratic) in order to adapt to new circumstances;
- timely and comprehensive flow of information and maximum co-ordination among agencies. This makes co-ordination structures (inter-agency committees or working groups) vital at both technical and political levels. Technical committees need clearly defined roles for each member, regular meetings, a secretariat and senior chairpersons, to ensure that the necessary action is recommended to policy-makers;
- adequate staffing levels to fulfil all functions, with sufficient motivation, well-designed job descriptions and working procedures, and supported by continual capacity building in order to overcome staff changes and upgrade skills in line with the latest technology; and
- good working conditions including equipment, software and office space.

In addition, in any reorganisation of structures, it is vital to ensure that existing capacity and experienced personnel are retained, and that their skills are transferred to any new location by a well-designed comprehensive transfer plan.

The four issues taken into account in DRI's evaluation are therefore:

1. Are the responsibilities and functions of the various agencies clear, and supported by legal instruments or regulations?
2. Does information flow well between agencies? Do co-ordinating mechanisms for debt management exist at political and technical levels and are they functioning well?
3. Are the staffing levels, motivations, job descriptions and work procedures adequate in all functions, and are systematic continuing capacity-building plans in place?
4. Are equipment and other working conditions adequate?

If the answer to all four questions is no, a country would receive the lowest assessment of 1. If the answer to all four questions is yes, it would receive 5.

## 2.2 Basic Debt Management: Disbursement, Recording, Payment

In order to ensure a good basis for strategy formulation, countries should ideally have a reasonable command of basic debt management. This involves:

- ensuring that effectiveness and disbursement conditions for loans and grants, and their individual sub-tranches, are known to and monitored by all responsible staff, and that procedures are in place so that they are fulfilled (and disbursements take place) as rapidly as possible in the context of donor and creditor procedures;
- recording all types of debt (external and domestic; short, medium and long-term; public, guaranteed and private sector), as well as grants and other external financial flows. Recording should ideally be computerised, and this is generally best achieved through internationally recognised systems such as those of UNCTAD or the Commonwealth Secretariat, provided they are installed on appropriate equipment (preferably a network among all agencies), and supported by intensive initial and regular follow-up training for basic and advanced users, software upgrades, and programmers versed in languages such as Oracle and Unix. Some countries have successfully used home-grown or spreadsheet-based systems, though these provide less analytical flexibility;
- whatever system is used, officials need to be capable of producing all reports necessary for routine portfolio-review analysis, and for debt sustainability analysis using Debt Pro or DSM+ systems. Countries need to go beyond this to validate/reconcile data with creditors on a regular basis, and to conduct regular portfolio reviews or report to management on developments in debt portfolios;
- well organised documentation of all loan and rescheduling agreements and disbursement and payment statements is equally essential for sound debt management;
- repaying debt on schedule is essential to international perception of debt management and to minimising penalty payments. As a minimum, countries need to avoid transitory arrears by designing a quarterly payment plan. Ideally they would have an annual payment plan which is fully respected.

DRI assessments are therefore based on ability to disburse, record, report on and repay debt:

- 1 = No database or reliable system of payment or disbursement. No documentation or reporting on debt portfolio.
- 2 = Basic spreadsheet system with no analytical capacity, just beginning to install CS-DRMS/DMFAS, low quality of data, frequent transitory arrears on payments, considerable delays on disbursements, minimal and ill-organised documentation. Occasional ad hoc and basic reporting on some elements of debt portfolio.
- 3 = Spreadsheet validated and some analytical tools, CS-DRMS/DMFAS installed/recorded but not used effectively (or only an old version), reasonable quality of data, occasional transitory arrears of payment, some arrears of disbursement, documentation adequate. Detailed occasional portfolio analysis.
- 4 = Latest version of CS-DRMS/DMFAS used for all basic debt management functions, good quality of data, no arrears of payment due to quarterly advance planning, effectiveness and disbursements broadly on schedule but ad hoc management, documentation well organised but not comprehensive. Detailed regular reporting on all aspects of external public debt portfolio.

5 = Latest version of CS-DRMS or DMFAS and knowledge of all relevant advanced features, excellent quality of data, full annual planning of all payments, full record of effectiveness and disbursement conditions and systematic monitoring and execution. Well organised and comprehensive documentation. Systematic and comprehensive reporting on all aspects of external and domestic financing portfolios and on payments/disbursements.

### **2.3 Debt Renegotiation**

Beyond basic debt management, HIPCs need to have developed for themselves the capacity to renegotiate their debt and achieve the maximum debt relief. This implies that responsibilities for renegotiating with each type of creditor (multilateral, bilateral, and commercial) should be clearly defined. Again, it is not necessary to centralise this function, but it is essential to minimise duplication and maximise co-ordination by agreeing policy guidelines among all agencies. Historically, many HIPCs have relied on external technical assistance to conduct debt negotiations (for example, preparing Paris Club memoranda, commercial debt buyback operations or Multilateral Debt Funds). Ideally they will dispense with such assistance over time. Four key components of such independence are: the maintenance of a dossier of information on all previous negotiations, the regular exchange of information with other countries on the results of their negotiations, the establishment of efficient channels for receiving all new international information (e.g. new debt relief terms, international interest rates, etc.), and the training of a wide number of staff on these issues. Finally, in the environment of the HIPC Initiative, all HIPCs need to base renegotiations on a 'debt strategy' which will ensure the macroeconomic sustainability of the debt, and which is designed by national technical officials rather than external advisers.

DRI evaluations therefore adopt the following hierarchy:

- 1 = Entirely reliant on external Technical Assistance (TA) or with little/no experience of renegotiations, no documentation on strategy or training.
- 2 = Extensively reliant on TA, some independent capacity (e.g. data preparation, poor Paris Club preparation) but limited to 1 or 2 individuals, no systematic documentation.
- 3 = Normally prepares Paris Club successfully on its own but relies on TA for other issues, documentation limited to aide memoires on negotiations, training limited.
- 4 = Virtually independent preparation and conduct of all negotiations, but needs more information on HIPC/latest terms and systematic training.
- 5 = Negotiating maximum relief from creditors based on economic sustainability; documentation and training in place; only needs to update external information.

### **2.4 New Borrowing Policy**

A well managed new borrowing policy is essential to avoiding a recurrence of debt problems in the medium term. It involves ensuring that:

- new loans and grants are as concessional as possible. For a typical HIPC, the first step is to reduce non-concessional loans to minimum levels. Some have gone further, insisting on zero non-concessional loans, IDA-comparable terms or on giving preference to grants. This is best achieved by systematic advance calculation of grant elements, using currency/maturity-specific discount rates;

- projects are efficiently identified, designed and evaluated, and matched with appropriate finance, and project (and disbursement) monitoring is effective. This can be achieved through an integrated Medium-Term Expenditure Framework linked to a Poverty Reduction strategy (see Section 2.6) which co-ordinates donor funds to support government priorities;
- borrowing guidelines are based on analysis of their macroeconomic sustainability; and
- they are strictly enforced, by restricting approval and signature of new loans to one person (ideally the Minister of Finance), who can also ensure that debt managers or technical-level committees provide opinions on new loans prior to their signature.

DRI therefore bases its evaluation on the following broad rankings:

- 1 = No new borrowing policy or no application of policy, no adequate expenditure framework, loan signature and approval by multiple agencies.
- 2 = Very loose or ill-defined limits (or excessive allowance for non-concessional borrowing) or limits not being applied fully, 1-year Public Investment Programme, centralised signature but with exceptions.
- 3 = Limits based on IMF concessionality levels and being implemented, grant element calculated, 3-year rolling Public Investment Programme, fully centralised approval and signature of loans.
- 4 = 'Grants first' or IDA-only borrowing policy (adapted slightly for higher-income HIPCs) and being implemented successfully through negotiations, Medium-Term Expenditure Framework introduced, centralised approval and signature.
- 5 = Borrowing policy as in 4 but based on comprehensive Debt Sustainability Analysis (DSA), updated as necessary, and successful negotiation of new guidelines with lenders, Medium-Term Expenditure Framework successfully implemented, central signature.

## **2.5 Macro Projection Capacity**

In order to assess long-term debt sustainability, HIPCs need to conduct macroeconomic projections over a 20-year period for different sectors (balance of payments, budget, real, financial). These should be reconciled through an economy-wide model. Ideally countries tailor models to their national circumstances, but would also fully understand generic models such as the World Bank RMSM or the IMF financial programming framework, and be capable of explaining and reconciling any differences in assumptions. They would also simulate many different scenarios, including testing the impact of potential external or internal shocks. As a result, co-ordination between macroeconomic and debt management units (and among multiple macroeconomic units in some countries) is essential to an effective debt strategy.

DRI assesses macroeconomic projections capacity as follows:

- 1 = No projections of any kind beyond current year estimates, no model, no co-ordination among macroeconomic agencies.
- 2 = 12-18 month projections and virtually no sensitivity analysis, rudimentary understanding of Bretton Woods Institutions (BWI) modelling tools, ad hoc co-ordination among macro agencies.
- 3 = 2-3 year projections from rudimentary models and little sensitivity analysis, reasonable understanding of BWI modelling tools, formal co-ordination among macro agencies but using different models and assumptions.

- 4 = 10-year projections generated by models and some sensitivity analysis, full command of BWI modelling tools, regular reconciliation of assumptions and modelling techniques by different agencies.
- 5 = 20-year projections generated by a model tailored to the country and full sensitivity analysis, with all units co-ordinated behind assumptions and model.

## **2.6 Poverty Reduction Policy Design and Implementation Capacity**

In order to design and implement a poverty reduction policy, countries have usually started with a Poverty Assessment, on which they can base a Poverty Reduction Strategy (PRS) which sets out overall principles and targets. This is normally followed by a fully costed Poverty Reduction Strategy Paper (PRSP), which ideally is the focus of the entire Medium-Term Budget Framework (MTBF). Governments should be assessed on their ability to:

- prepare such documents independently;
- ensure that these documents reflect national priorities as well as international objectives such as the International Development Targets (IDTs);
- make poverty reduction the focus of all macroeconomic policy;
- consult fully with civil society in preparing the programme;
- make such programmes the focus of donor co-ordination discussions; and
- incorporate into these plans a capacity-building component for line ministries, specialised units and local governments to ensure efficient and transparent implementation.

The most advanced governments will be adapting the plans to changes in circumstances, monitoring the contribution of the non-governmental sector to poverty reduction, and constructing 15-year plans to meet or exceed the IDTs.

DRI assessments are based on the following elements:

- 1 = No poverty assessment or reduction plan, ad hoc donor projects.
- 2 = Poverty assessment conducted and broad strategy defined, basic co-ordination of donor projects through sector strategies.
- 3 = Poverty eradication plan and medium-term budget framework agreed with civil society, donor projects assessed on poverty eradication plan principles.
- 4 = Fully costed PRS agreed and integrated with medium-term budget, full co-ordination of all donor poverty-related projects into PRS.
- 5 = Poverty action plan being well implemented for several years, full assessment of non-governmental interventions in poverty reduction, long-term plan to achieve the IDTs.

## **2.7 Overall Debt Strategy and Sustainability Analysis**

Scenarios for debt relief, new borrowing, the macroeconomy and poverty-focused spending need to be combined into a computerised simulation of results in order to assess the macroeconomic sustainability of debt, the prospects for additional spending on poverty reduction, and the optimal strategy options for debt reduction and new financing. A large number of officials from various debt, macroeconomic and poverty reduction agencies need to be trained in concepts of

debt strategy analysis, static and dynamic sustainability ratios, effective interest rates and computerised simulation.

Countries need to obtain a computerised analysis tool which:

- calculates present value using currency-specific discount rates and loan-by-loan data;
- estimates and fills fiscal and external financing gaps;
- calculates ratios linked to exports, fiscal revenue and GDP;
- incorporates domestic and private sector external debt; and
- is easily linked to computerised debt recording systems.

To ensure sustainable capacity, trained officials need to be placed in a formal national strategy team, with regular analysis in the job descriptions of team members.

DRI therefore bases its ranking on the following components:

- 1 = No experience of HIPC/DSA or computerised analysis, no team established.
- 2 = Mission-based briefing in DSA and HIPC concepts.
- 3 = Initial training in DSA analysis, completed own draft Debt Strategy Report using appropriate computerised tool.
- 4 = Comprehensive regional and national training on DSA, going beyond HIPC coverage to include domestic/private debt, fully competent in computerised analysis.
- 5 = Team fully in place, preparing and regularly updating independent Debt Strategy Analysis, adapting and customising computerised tool to national needs.

## **2.8 Political Commitment to Debt, Economic Management and Poverty Reduction**

The crucial element in effective debt and macroeconomic management, and poverty reduction, is political commitment. Our experience is that, in the context of the HIPC Initiative, the best way to transform such commitment from principles into action is for technical officials to elaborate a National Debt Strategy, and then for political leaders to ensure national leadership of negotiation and analysis and to achieve a genuinely sustainable debt burden. An early indication is therefore commitment by decision-makers to minimise reliance on external advice or assistance, by giving priority to building and retaining the capacity of national staff. Later indications are determination to discuss national strategies widely within the nation, and to implement strategies in conjunction with civil society and the donor community.

DRI ranks countries on the following basis:

- 1 = No political level discussion of debt management or poverty reduction;
- 2 = Commitment in principle to national debt and macroeconomic management and poverty reduction, and authorisation of associated capacity-building training;
- 3 = Government adoption of debt and poverty reduction strategies and discussion with Parliament, civil society and donors;
- 4 = Partial government implementation of strategies;
- 5 = Complete government implementation of debt and poverty reduction strategies and support of civil society and donor community.

## **2.9 Overall Assessment**

Once individual scores have been established for each of these areas, a simple average of the scores in the eight areas is calculated in order to assess the overall capacity of the country in managing debt, the macroeconomy and poverty reduction. HIPC scores and the progress they make in each area are a major factor in determining their priority in DRI's work programme.

### **III. ASSESSMENT OF HIPC CAPACITY**

Based on a summary of 31 full assessments of countries with which DRI has been working, it is possible to draw the following overall conclusions (details of country assessments are confidential to the country and DRI):

#### **3.1 Institutional Issues**

Institutional reinforcement has made considerable progress in the late 1990s. Many HIPCs have increased staff levels in debt management offices and other key agencies. Others have improved co-ordination by establishing technical or senior-level debt strategy committees (which go beyond the traditional functions to incorporate co-ordination with macroeconomic analysis and poverty reduction). Some have established systematic capacity-building plans for all aspects of HIPC-related debt, macro projection and poverty reduction management, or issued new legal decrees eliminating duplication of functions. Many have improved equipment and working conditions in various government agencies.

However, many debt management offices remain chronically understaffed or under-equipped, some have no functioning co-ordination structures, several suffer from chronic duplication of responsibilities with no clear legal definitions, and most have no systematic training or capacity-building plans. Average ratings have improved from 2.19 to 2.81, but it remains one of the areas most urgently in need of improvement, with three-quarters of countries rating 3 or below.

#### **3.2 Basic Debt Management**

Prior to HIPC, most effort had devoted by international technical assistance to basic debt management — recording, disbursement and repayment. Donors have laudably invested considerable resources in expanding the utilisation of the major debt recording and payment management systems (DMFAS and CS-DRMS). There has been less progress on these issues before and during HIPC, with average assessment decreasing from 2.48 to 3.06.

However, a considerable number of countries remain stalled in introducing new recording systems, or unable to produce easily from them the data needed for debt sustainability analysis or for entirely accurate payments. The effective utilisation of recording systems by many countries remains dependent on 1 or 2 key individuals, with inadequate training or support for complex programming languages such as Oracle and UNIX.

Most countries do not systematically validate data with creditors. As a result, many remain dependent on creditors for information on payments, and both Bretton Woods Institutions have been constructing their own databases for sustainability analysis. Finally, many HIPCs (especially

in Francophone Africa) fail to monitor borrowing by parastatals or domestic debt, and virtually none have good private sector debt monitoring.

### **3.3 Debt Renegotiation**

This is an area in which modest capacity-building resources were concentrated prior to HIPC, resulting in an average rating of 2.48. Though many HIPCs have developed through experience an independent capacity to prepare data and basic documentation for the Paris Club, an alarming number remain reliant on external technical assistance. The HIPC Initiative has provided a major incentive for countries to increase their knowledge of Paris Club and other bilateral debt negotiation and multilateral creditor practices, because their ability to negotiate can fundamentally influence the timing and profile of their debt relief.

Yet many have no systematic documentation on debt negotiations, exchange no information with neighbouring countries, do not collect the latest information (partly because it is not available in a convenient language), and have not trained staff to ensure that knowledge spreads beyond 1 or 2 key individuals. Few base their negotiations on analysis of the macroeconomic sustainability of their debt. As a result, though there has been a considerable improvement in HIPC capacity on these issues (now averaging 3.23), much still remains to be done.

### **3.4 New Borrowing**

Before HIPC, countries were making efforts to control new borrowing, with an average ranking of 2.52 when we began our assessments. Most HIPCs now have rudimentary guidelines for new borrowing (concessional only) and have centralised approvals and signatures of new borrowing.

However, some are still not calculating grant elements systematically or correctly. Others are still breaching such guidelines for key projects, allowing line ministries or parastatals to borrow independently, or accepting mixed credits whose non-concessional elements do not fit within the guidelines. Only a few have moved beyond such guidelines to a systematic search for the most appropriate concessional financing for each project, or to a HIPC-led process of project design and donor co-ordination which ensures that only priority HIPC-designed projects are funded.

Given creditor pressures on many HIPCs to borrow non-concessionally after their completion points, capacity reinforcement in these areas (plus changes in creditor and donor practices to ensure that they do not offer non-concessional loans and that they fund projects designed by HIPCs) is a top priority if HIPCs are to avoid falling into renewed debt unsustainability due to excessive borrowing. This has therefore been one of the areas of slowest improvement during the HIPC period, reaching only 3.0.

### **3.5 Macroeconomic Projections**

At the outset of the HIPC period this was one of the areas of lowest capacity, with a ranking of only 2.29, and with most countries making only 12-18 month projections (and many not projecting beyond the current year), having only rudimentary understanding of Bretton Woods models, conducting no sensitivity analysis, and possessing no economic model tailored to interpreting their own economies.

This area has also made considerable progress in the last two years, reaching a ranking of 3.0. Many countries have extended their projections to 10-20 years, developed their understanding of BWI models, and conducted sensitivity analysis through multiple scenarios. But they still need in

particular to document the assumptions used to support their projections, to broaden the training on these issues within macro units, to integrate ad hoc macroeconomic projections into models which are tailored to the circumstances of their countries, and to ensure that all agencies use the same model.

### **3.6 Poverty Reduction**

One of the greatest remaining needs for capacity-building is in poverty reduction. This had a pre-HIPC CBP ranking of 2.42, and has improved slowly, to 3.03. Before HIPC, most countries made poverty assessments, but few had designed poverty eradication strategies and very few had costed poverty action plans, let alone medium-term poverty-focused budget frameworks. Virtually no country was sufficiently proactive in co-ordinating donor support around national priorities.

Though there has been some progress under HIPC, it has been lamentably slow, and almost all HIPCs still have relatively little capacity to design and implement fully costed poverty reduction programmes (many still have relatively poor baseline data on poverty indicators). None has implemented a comprehensive plan for several years, comprehensively assessed non-governmental interventions, or generated a long-term plan to achieve the International Development Targets.

Given the new and stronger links with poverty reduction under the Enhanced HIPC Initiative, there is a more urgent need to strengthen capacity building in this area (rather than for BWIs designing programmes for HIPCs) so that poverty reduction is designed by HIPC countries themselves. The majority of HIPCs remain with rankings of 3 or 4 in mid-2000.

### **3.7 Debt Strategy and Sustainability Analysis**

At the beginning of the period, virtually no HIPCs had any knowledge of the concepts or calculations of the HIPC Initiative or of computerised debt sustainability analysis. They had no ability to design scenarios on debt relief, new borrowing, macroeconomic developments or social spending, let alone to combine them into debt sustainability analysis. The average ranking was therefore 1.32.

This has been the area of most dramatic improvement in capacity, raising the average ranking to 3.06. Almost all HIPCs reached by the DRI programme now have a good understanding of debt sustainability concepts. The vast majority have received basic training in computerised debt sustainability analysis, and are able to design scenarios for debt reduction, new borrowing, macroeconomic prospects and social spending. The most advanced have formed permanent debt strategy analysis teams which incorporate domestic and private sector debt into their analysis. However, more needs to be done, particularly in broadening capacity by training wider groups of officials, and in widening the analysis beyond narrow HIPC-based DSAs to incorporate domestic and private sector debt.

### **3.8 Political Commitment to Debt Management and Poverty Reduction**

Political commitment to improving debt management and poverty reduction has increased considerably in the late 1990s. This is partly due to the added incentive of extra debt relief, but also reflects the fuller involvement of the HIPC government and civil society in the decisions on its debt relief and poverty reduction efforts (compared to pre-HIPC procedures). Decision-

makers are therefore giving more attention to reinforcing national management of debt and poverty reduction.

On average, political commitment to debt management and poverty reduction has improved from 3.03 to 3.45. Most countries now rank at 3 or above, and have started comprehensive capacity-building plans and approved national debt and poverty reduction strategies. But few have implemented them successfully in full consultation with civil society and donors.

### 3.9 Overall Assessment and Conclusion

Overall, the HIPC Initiative and associated efforts by DRI and other providers of assistance have engendered a **considerable improvement** in debt management and poverty reduction capacity in HIPC countries during the last three years. According to our ranking scale, HIPC capacity has improved from 2.34 to 3.08.

However, **the picture varies greatly across different countries**, with current capacity ranging from 1.38 to 4.13, and improvements from virtually nil to dramatic. This emphasises the need for capacity-building which is tailored to the needs of individual countries. Obviously capacity in the countries which have not yet embarked on their HIPC process or been approached by the CBP is much lower than this sample. This emphasises the need for continued capacity-building in all of these areas by the international community.

On the **key functional areas**, debt recording, negotiations and new borrowing are areas where considerable progress had been made before HIPC, but more remains to be done. This is particularly true of new borrowing policy where progress has been the slowest; it now ranks below debt recording and negotiations, whereas it had been on a par with these functions prior to HIPC. In contrast, macroeconomic projections have shown the biggest advance since 1996, to the point where capacity in this field is now at the same level as for debt recording.

The critical shortfalls are in institutional reinforcement and poverty reduction planning and implementation. Of the 31 fully assessed HIPCs, 7 have the greatest need for capacity-building in institutional reinforcement and 7 in poverty reduction, and around 9 in each of the other technical/institutional areas. 7 need fairly comprehensive capacity-building in all areas, while 3 have relatively little need for intensive assistance; others reveal a mixed picture.

In sum, even after four years of intensive capacity-building by various programmes, and of implementation of the HIPC Initiative, virtually no countries have reached the desired standard (ranking of 5) in any of the technical areas. However, the political commitment to improving debt and macroeconomic management and poverty reduction is very high in the majority of countries - perhaps reflecting the large financial benefits expected from HIPC.

The international community needs to respond to this high level of political commitment to building national capacity, by providing assistance which genuinely builds capacity in HIPC countries (rather than making them dependent on external technical assistance). This can be achieved only by adopting genuinely demand-driven methods (such as the participative assessment described above) which allow them to define their own priorities and methods. A second key element is decentralising implementation of capacity-building to regional institutions owned and run by HIPCs themselves, which is DRI's priority over the next two years.

This paper, by disseminating a methodology defined in conjunction with the HIPCs, aims to ensure that HIPC priorities are fully reflected in support for capacity-building under the Enhanced HIPC Initiative, and that the international community provides such support through an efficient division of labour according to institutional comparative advantage.

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