HIPC DEBT STRATEGY

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HIPC MINISTERS IN MAPUTO: FINANCING POVERTY REDUCTION BEYOND HIPC II

The HIPC Finance Ministers' Forum met for the fifth time on 21 November 2001 in Maputo. It was hosted by the Government of Mozambique and organised by MEFMI, DRI and the Government of Sweden. All eight regional HIPCs were represented at Ministerial level. Ministers agreed on a 'Maputo Declaration', which was subsequently validated through consultations with 25 other HIPC Ministers. They also affirmed their intent to participate actively (and wherever possible in coordination) in on-going reviews by Bretton Woods Institutions of the HIPC Initiative, PRSPs, PRGF and conditionality.

Ministers stressed their own commitment to the following measures:

- full participation in the HIPC process and debt sustainability analyses;
- maximising their own efforts to achieve full creditor participation in the Initiative;
- designing and implementing poverty reduction strategies with full popular participation;
- mobilising external financing and national resources for poverty reduction only in ways which ensure genuine long-term debt sustainability and financial market development;
- spending debt relief proceeds productively and transparently on poverty reduction; and
- establishing institutional structures and other prerequisites for successful capacity-building.

They urged the international community to commit itself to joining them in a partnership to halve poverty in their countries by 2015. To achieve this goal, they reiterated the bulk of the joint recommendations made at their London meeting in June, on which the international community has not made much progress. Among these, they identified those problems that require the most urgent solutions:

1. Accelerating Country Progress under HIPC II. Implementation must be dramatically accelerated, for pre-decision and pre-completion point countries, to reverse a sharp slowing of progress in 2001. This applies with equal force to HIPCs pre-decision point and between decision and completion points. It will require much more streamlining of conditionality in PRGFs and PRSCs, maximum credit for past and current track records, avoidance of new conditions in mid-programme, and predictable, transparent guidelines on compliance and reporting. Post-conflict countries need special efforts, as well as steps to clear their arrears rapidly, and rapid increased in aid and capacity-building assistance to speed reconstruction.

2. Combating External Shocks. External shocks (including conflicts in neighbouring countries and refugees, and the tragic events of 11 September) and the global recession, run a major risk of derailing the HIPC Initiative and poverty reduction, and urgent measures are needed to combat them. A range of measures was proposed in London. In Maputo Ministers stressed the need to assess comprehensively all HIPCs' debt sustainability every year between decision and completion points, and thereafter, and to provide immediate relief to compensate any unsustainability. Ministers were alarmed that the 'safety margin' originally provided by relief beyond Cologne Terms which reduced debt ratios well below HIPC thresholds, has been abandoned in reassessing debt sustainability at completion point. They urged the international community to revert to aiming well below HIPC thresholds, to ensure genuine long-term sustainability.

3. Monitoring and Reducing Domestic and Private Sector Debt. In spite of HIPC government efforts at fiscal control and financial sector reform, domestic debt problems are severely damaging growth prospects, private sectors, government finances, poverty reduction spending and therefore the sustainability of external debt in many HIPCs. The international community needs to assign top priority to solving these problems, and HIPCs will themselves convene a high-level technical meeting in 2002 to discuss best practices. Private sector debt is also becoming a significant burden for some HIPCs, raising foreign exchange risks. As a result, all future debt sustainability analyses should include domestic and private sector debt, to provide a picture of total national debt sustainability and its potential effects on the PRSP.

4. Increasing and Frontloading Relief. Ministers urged all creditor governments to follow the lead of some G8 members by holding debt service payments in trust for countries which are pre-decision points, cancelling 100% of service from decision point and cancelling 100% of stock at completion point, and moving the cut-off date or cancelling post cut-off date debt where necessary. They also urged multilateral creditors to provide interim relief on all (including non-concessional) loans before the completion point, and to cancel 100% of multilateral debt at completion point, and to use more of their own funds for relief in order to reduce diversion of bilateral aid and maximise the additionality of all debt relief.

5. Streamlining and Facilitating Debt Relief Negotiations. Ministers stressed that HIPC-related negotiations are placing huge burdens on their officials, sometimes with little result. They urged the international community to streamline debt renegotiations, and to accelerate the implementation of agreements on interim relief by all creditors. Some creditors – notably non-Paris Club governments and commercial creditors – are not providing relief as promised, undermining debt sustainability. The international community should convene a conference between HIPCs, international financial institutions, and non-OECD and other bilateral creditors, in order to agree mechanisms for ensuring relief, using the IDA buyback facility, HIPC Trust Fund or other resources. They should also provide legal, political and financial support to HIPCs in resisting lawsuits by commercial creditors, especially those whose arbitration is conducted by international organisations, and integrating mechanisms to prevent such legal threats into discussions on international bankruptcy law.

6. Mobilising New External Financing. HIPC relief will be woefully insufficient to reach the Millennium Development Goals. Ministers urged the international community to quantify MDG financing needs by the time of the FFD conference, and to redouble efforts to mobilise and encourage all types of external and domestic financing. They committed themselves to tight controls over non-concessional borrowing where this is necessary to maintain long-term debt sustainability, but urged the international community therefore to increase aid through concessional loans and grants, to reach 0.7% of GNP rapidly. They reiterated their London recommendations on enhancing the quality of aid, and noted that there had been considerable progress on budget support, untying, procurement harmonisation, and focussing on productive projects. However, they stressed the importance of disbursing commitments rapidly to avoid disrupting poverty spending, and the need to empower HIPCs themselves to decide their own financing preferences.

7. Mobilising National Resources for Poverty Reduction. Ministers also reiterated their London commitments to accelerate their efforts to mobilise national resources for poverty reduction, notably budget revenue and non-debt private sector flows (especially FDI). They congratulated the international community on some recent moves to free market access for least developed countries, but urged more action. They also requested more assistance for export diversification in HIPCs, to avoid cumulative downward production effects on commodity prices, for intra-regional trade through developing country initiatives, and for financial sector reform to be reoriented to promoting local investment and savings.

8. More Flexible Poverty Reduction Strategies and Funding. Ministers reaffirmed their strong commitment to leading the fight against poverty, and the major progress made in preparing PRSPs since 1999. However, they urged donors and international organisations to:

- allow far more scope to tailor poverty reduction strategies and their funding to country circumstances and national priorities, particularly in designing pro-poor growth paths focussing on rural economies, and including more scope for spending on post-conflict reconstruction and combating the HIV/AIDS pandemic.
- Provide maximum flexibility in PRGF programmes, notably in loosening fiscal targets to allow increased spending on poverty reduction, and in other macroeconomic and structural targets.
- Show more commitment to supporting the priorities identified by HIPC people through existing national participatory and decentralisation processes, rather than imposing external priorities or participatory processes.
- Ensure maximum effectiveness in the use of domestic and external funds for poverty reduction spending priorities by encouraging all donors to support PRSPs.
- Accelerate efforts to analyse the causes of poverty and its links to economic policies, in order to transform medium-term PRSPs into longer-term plans to reach the MDGs.

9. Reinforcing Capacity-Building Efforts. Work on debt management, macroeconomic forecasting and poverty reduction planning, by the HIPC CBP and other international and regional organisations, must be substantially reinforced. Ministers' top priorities are:

- enhancing coordination among managers of debt, new financing, economic policy and poverty reduction, as well as personnel and working conditions.
- Computerising recording of public and private debt, and monitoring private non-debt flows and aid grants through surveys.
- Training on domestic debt restructuring, as well as refresher training on external debt reduction negotiations
- Training in analysing new financing policy and negotiating aid and commercial flows, as well as domestic debt issuance strategies and integrated asset and liability management.
- Developing national models and tools to forecast the macroeconomy and poverty reduction as well as best practices in projecting sectors and sensitivity analysis.
- Analysing the poverty effects of macro and structural policy reforms, and budgeting and costing poverty reduction programmes.
- Training in financial sustainability analysis computer tools and overall concepts.

10. Future Meetings of HIPC Finance Ministers. Finally, Ministers emphasised that capacity building would have sustainable results only if HIPC countries and their populations are empowered to design and implement their own development strategies. As a result, while keeping a close eye on debt relief, their future meetings should focus more on assessing international efforts to mobilise international and national new financing, and on exchanging best practices among countries in areas such as external debt renegotiation, domestic debt reduction, and mobilisation of new financing, in order to ensure that their debt burdens remained sustainable over the long-term.

CBP PHASE 3 TO FOCUS ON INTENSIVE ASSISTANCE

Over the last six months, DRI, its regional partners and its donors have been working intensively together to prepare the third phase of the CBP. In doing so, they built on the conclusions of the independent review of the CBP, and in particular on the results of consultations with the regional partner organisations and the HIPCs themselves.

The main conclusions they have drawn about the CBP's achievements are that it has:

1. Registered some very significant achievements, with 20 countries implementing reinforced debt strategies that have been designed in CBP workshops, and 14 countries substantially reinforcing their institutional structures. Around 15 countries now have the capacity to conduct their own DSAs and design debt strategies independently though, due to institutional constraints or lack of demand from their policymakers, only 10 are doing so regularly. The same number of countries has the capacity to train their own nationals on these issues.
2. Continued to mobilise the widest possible range of assistance for countries, involving more than 20 international and regional organisations, and 78 independent resource-persons.
3. Made some progress in intensifying assistance to individual countries, but this was limited by the introduction of the Enhanced HIPC Initiative in 1999, which resulted in a sharp increase in demand from new countries and necessitated widening CBP assistance to more countries.
4. Regularly adapted the content of training and missions to the needs of different countries, but countries are increasingly demanding even more in-depth assistance, especially on overall national debt strategies (including domestic and private sector debt), and post-HIPC new financing.
5. Introduced two successful new types of interventions: Training for Trainers workshops, and intensive capacity-building advisors provided to individual countries over a 1-2 year period.
6. Diversified beyond debt strategy workshops to more in-depth events in which countries explore key components of debt strategy formulation in more detail. These have included subject-specific regional workshops on debt negotiations,

Developing capacity building partnerships with Comsec & WAIFEM, in Sierra Leone

forecasting the macroeconomy and poverty reduction, and domestic debt strategy.

7. Played an increasing role in information-sharing and advocacy through the organisation of two senior interregional meetings and 5 Ministerial Meetings, and through expansion of its newsletter, website and publications on key aspects of HIPC Debt Strategy Formulation.
8. Been responsible for major advances in assisting HIPC governments to create and reinforce regional organisations run by HIPCs themselves, to build capacity in debt management. It has also made important strides in handing over responsibility for executing the CBP to them, with the most advanced being MEFMI and Pôle-Dette. However, countries that are not members of these organisations, notably PALOPs, will require additional channels for assistance.
9. Been able to execute many more events than originally foreseen within its budget ceilings, and with a very low level of staffing/overhead costs (only 15.8% of the total budget).
10. Introduced a comprehensive process of post-event evaluation, continuous revision of training materials, and evaluation of country progress in debt management.

Priorities for Phase III

Drawing on these conclusions, donors, regional partners and DRI have agreed the following priorities for the third phase of the CBP, which will last for the period 2002-2004:

1. Fully cementing the transfer to regional institutions, going beyond training functions to decentralise CBP governance, advocacy and information-sharing structures, to harmonise evaluation methods and to enhance direct liaison between donors and regional institutions.
2. Ensuring that regional organisations are cemented as 'centres of excellence' in debt strategy and analysis in the eyes of their member states and the international community, by demonstrating their capacity to conduct all training with

CBP REGIONAL PARTNER INSTITUTIONS:

The second of our articles on regional partner institutions is written by Georges Diffo Nigtiopop, head of the Regional Debt Management Training Unit for Central and Western Africa (Pôle-Dette) based at the headquarters of the Bank of Central African States in Yaoundé. The Pôle-Dette was established only in 2000 but, as Mr. Diffo Nigtiopop's article shows, has achieved an immense amount since then.

The Regional Debt Management Training Unit for Central Africa and Western Africa (Pôle-Dette) runs the Debt Management Capacity Building Project created by the Training Centres of the Central Bank of Western African States (BCEAO) and the Bank of Central African States (BEAC). Established at a round table meeting of funders on 5th October 1999 in Paris, the Pôle-Dette began operations in May 2000.

The project is the culmination of a long process. In 1996, BCEAO and BEAC began training courses in macro-economic management, with financial support from the African Capacity Building Foundation (ACBF) and their own member states. In 1999, other funders joined the debt management training project – notably the funders of the HIPC CBP (particularly Switzerland), the African Capacity Building Foundation, and the European Union.

Apart from the 14 countries of the Franc Zone (Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Republic, Cote d'Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Senegal and Togo), the Pôle-Dette is also helping Guinea and Mauritania with additional financing provided by Switzerland. Nationals from Burundi, Rwanda and São Tomé & Príncipe have also taken part in several joint Pôle-Dette/DRI seminars over the last two years.

Although the Pôle-Dette has developed a partnership with several international institutions (notably Commonwealth Secretariat, IMF, UNCTAD, UNITAR and the World Bank), Debt Relief International has been its main partner in francophone Africa. Of the fourteen seminars and workshops that Pôle-Dette organised between May 2000 and December 2001, nine were jointly sponsored with DRI. In parallel with this highly focussed training, the Pôle-Dette and DRI organised missions to several countries to evaluate capacity building requirements and assist with urgent debt strategy support – Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Côte d'Ivoire, Equatorial Guinea, Guinea, Guinea-Bissau, Mali, Mauritania, Niger and Togo.

The actions taken to date in the framework of the CBP have had three main objectives, namely:

1. ***to help the countries which are potentially eligible for the HIPC Initiative to undertake an independent analysis of the sustainability of their debt at and after the decision point of the Initiative:*** this has occurred principally through national workshops on public debt sustainability analysis, followed where necessary by follow-up missions to cement country capacity. In each workshop and mission, countries produced or updated their national debt strategies, analysing their debt sustainability and putting them in a position to negotiate better their entitlement to debt relief with the Bretton Woods Institutions. As a result of these workshops and missions, we consider that 5 countries in the region are now in a position to conduct their own debt strategy analyses on a regular basis, and 4 could undertake training of their own nationals;
2. ***to help the countries who are in the interim period of the HIPC initiative to better negotiate their debt relief with the different categories of creditors, and to forecast the impact of the relief on poverty reduction.*** To achieve this, the debt managers of the countries who have reached their decision points have taken part in more detailed subject-specific regional workshops of two types. First, workshops on debt renegotiation have allowed them to build renegotiation skills, write national renegotiation strategy reports, and identify options for new borrowing policies. They have also created a network of regional debt managers who can contact each other at any time to find out the latest progress in negotiations with any individual creditor. Second, we have also emphasised deepening capacities to forecast the results of macro-economic policy and poverty reduction strategies, so as to allow them to identify the potential impact of debt relief on poverty reduction.
3. ***to prepare the HIPC countries to maintain the sustainability of their debt beyond the HIPC Initiative:*** There have been three aspects of our joint work here. We have gone beyond external debt to analyse domestic and total (external + domestic) debt sustainability, both in national workshops and missions, and in a regional seminar. We have also begun to look more closely

minimal assistance; responding flexibly to HIPCs immediate and long-term support needs through rapid follow-up and intensive institutional support; running joint information and advocacy products.

3. Decentralising beyond regional institutions to HIPCs themselves, by allowing them to run their own workshops, establishing a HIPC Learning Network for distance learning on debt strategy, and organising regular self-assessments of debt management capacity by HIPCs themselves.
4. Introducing and refining methodology for post-HIPC debt strategy analysis, in order to ensure that debt remains sustainable after HIPC completion points, particularly by focussing on new financing strategy and domestic debt strategy.
5. Focussing on intensive assistance to individual countries to cement their debt strategy capacity, through institutional support missions and in-country advisory assistance
6. Extending the scope and coverage of information products and their access in HIPCs, and providing support to regional institutions to develop and plan such products.
7. Changing the CBP governance structures to ensure that they maximise transfer to regional institutions and improve their efficiency in advocating HIPC Ministers' views.
8. Streamlining reporting to donors on the progress of the CBP, and evaluating the long-term financial sustainability of the CBP during 2002.

On behalf of the donors and its regional partners, DRI would like to thank all of the staff and resource-people who have made its events so successful, and all of the participants who have worked so hard to implement the lessons they have learned through the CBP. We look forward to working with you even more closely over the next three years in order to ensure that debt strategy and analysis capacity is sustained and reinforced in your countries, providing a basis for sustainable funding of poverty reduction.

POLE-DETTE

BANQUE DES ETATS DE L'AFRIQUE CENTRALE (BEAC)
BANQUE CENTRALE DES ETATS DE L'AFRIQUE DE L'OUEST (BCEAO)

POLE REGIONAL DE FORMATION EN GESTION DE LA DETTE
EN AFRIQUE DU CENTRE ET DE L'OUEST (POLE-DETTE)

at new financing, both domestic and external. Thirdly, in cooperation with all the other partners of the Pôle-Dette, we have been paying increasing attention to institutional questions relating to public debt management, because institutional deficiencies are one of the main origins of the unsustainable financial and debt management policies pursued in francophone Africa over the last three decades.

Under the forthcoming phase 3 of the CBP, we intend to strengthen our cooperation even further, while adapting our interventions to the expressed need of the countries in the region, and to their differing levels of capacity:

- One of the most pleasing aspects of our cooperation is that 80-90% of the resource-people in workshops have been from within the francophone region. We will be running a 'training for trainers' workshop in 2002 to cement and extend this regional capacity.
- Another crucial issue for the Franc Zone is how to integrate the HIPC debt relief and the resulting poverty reduction into the fiscal convergence criteria established by the zone, in such a way as to maximise the positive benefits for poverty reduction. So we will be organising a seminar for decision-makers on the fiscal sustainability of debt early in 2002.
- We will also be conducting joint missions with DRI and other partners to assess the institutional framework for debt management in a selection of countries that have a need to reinforce their institutions, to make recommendations for intensive institution-building.
- We will continue to reinforce the regional network by holding a joint annual meeting of debt managers to exchange views on key priority issues for debt management.
- Finally, we will move forward into a 'second generation' of national debt strategy workshops, integrating debt strategy into a coherent overall financial and macro-economic management strategy for long-term debt sustainability and poverty reduction.

For more details of the Pôle-Dette, please email Georges Diffo Nigtiopop on diffo@beac.int

Seminars and workshops organised by the Pôle-Dette (May 2000 – December 2001)

Seminars and workshops	Dates/Location	No. of participants	In conjunction with[1]
3rd Debt strategy regional workshop for francophone HIPCs	15-26/05/2000, Yaoundé	53	DRI
Chad national debt strategy workshop	28/08- 6/09/2000, N'Djaména	31	DRI
Niger national debt strategy workshop	8-16/09/2000, Niamey	31	DRI
2nd Francophone regional debt negotiations workshop	13-18/11/2000, Dakar	39	DRI
Regional workshop on the UNCTAD DMFAS debt management software	27/11- 8/12/2000, Lomé	33	UNCTAD
1st Francophone regional seminar on forecasting the macroeconomy & poverty reduction	11-20/12/2000, Yaoundé	51	DRI
Regional workshop on the Debt-Pro debt analysis software	19-24/02/2001, Yaoundé	48	IDM
Congo national debt strategy workshop	15- 25/05/2001, Brazzaville	35	DRI
Regional seminar for decision-makers on institutional structures for debt management	21-24/05/2001, Ouagadougou	19	---
2nd Francophone regional seminar on forecasting the macroeconomy & poverty reduction	16-27/07/2001, Cotonou	54	DRI
3rd Francophone debt negotiations workshop	10-15/09/2001, Douala	31	DRI
1st Francophone regional seminar on domestic debt management	22-26/10/2001, Abidjan	83	DRI
Regional seminar on public debt risk management	12-16/11/2001, Libreville	30	World Bank
Regional seminar on legal aspects of debt management and finances	3-5/12/2001, Yaoundé	31	UNITAR

[1] UNCTAD: United Nations Conference on Trade and Development, DRI: Debt Relief International, IDM: International Debt Management, UNITAR: United Nations Institute for Training and Research.

HIPC INITIATIVE
COUNTRY PROGRESS AND PRSP STATUS (NOVEMER 2001)

Source: DRI, IMF & World Bank

Country

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

Country	HIPC I		PRSPs*	
	Decision	Completion	Interim	Final
Benin	7/00	1S2002	6/00	4Q2001
Bolivia	2/00	6/01	1/00	3/01
Burkina Faso	7/00	1Q2002	NA	5/00
Côte d'Ivoire	2S2002	…	2002	…
Guyana	11/00	1S2002	10/00	1Q2002
Mali	9/00	2Q2002	7/00	1Q2002
Mozambique	4/00	9/01	3/00	10/01
Senegal	6/00	1S2002	5/00	1Q2002
Uganda	2/00	5/00	NA	3/00

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

Country	HIPC II		PRSPs*	
	Decision	Completion	Interim	Final
Angola	no current timetable		2002	…
Burundi	2003	…	2002	…
Cameroon	10/00	2003	10/00	1Q2002
Central African Rep.	2002	…	12/00	2002
Chad	5/01	2003	7/00	2002
Comoros Islands	2002	…	mid-2002	…
Congo, Dem. Rep. of	2002	…	1Q2002	…
Congo, Rep. of	2002	…	2Q2002	…
Ethiopia	11/01	2003/2004	11/00	2Q2002
Gambia	12/00	4Q2002	10/00	1Q2002
Ghana	1Q2002	2004	6/00	4Q2001
Guinea	12/00	2003	10/00	1Q2002
Guinea Bissau	12/00	2003	9/00	2Q2002
Honduras	7/00	4Q2002	4/00	8/01
Kenya	DSA due in 2002		7/00	4Q2001
Lao PDR	no current timetable		3/01	2002
Liberia	no current timetable		no PRSP process	
Madagascar	12/00	4Q2002	11/00	1Q2002
Malawi	12/00	4Q2002	8/00	1Q2002
Mauritania	2/00	2Q2002	NA	12/00
Myanmar	no current timetable		no PRSP process	
Nicaragua	12/00	2003	12/00	7/01
Niger	12/00	4Q2002	10/00	1Q2002
Nigeria	no current timetable			
Rwanda	12/00	4Q2002	11/00	4Q2001
São Tomé & Príncipe	12/00	4Q2003	4/00	2Q2002
Sierra Leone	2002	…	1Q2002	…
Somalia	no current timetable		no PRSP process	
Sudan	no current timetable		no PRSP process	
Tanzania	4/00	11/01	2/00	10/00
Togo	2003	…	2002	…
Vietnam	DSA due in 2002		3/01	1Q2002
Yemen	6/00	ineligible	12/00	1Q2002
Zambia	12/00	4Q2003	7/00	1Q2002

** Dates for HIPC decision and completion points are those of final BWI Board approval; those for PRSPs are dates of publication by governments.*

HIPC Initiative Progress

Issues
Delays in preparing full PRSP; cotton exports shock and cotton sector reform issues
second country to reach completion point under HIPC II, after Uganda
Slower PRSP implementation than expected; cotton exports shock; unsustainable at CP
IMF staff-monitored programme paves way for PRGF in 2002
Delays in preparing full PRSP; no interim relief provided by PC, problems with commercial creditors
Delays in preparing full PRSP; problems with non Paris club comparability
third country to reach completion point; problems with non Paris Club comparability
Delay in PRSP and PRGF; receiving interim relief
continued difficulties with non Paris Club/commercial creditors; coffee exports shock

preliminary DSA shows ratios under HIPC thresholds, staff-monitored programme
IMF staff-monitored programme from July to Dec. 2001. Effort to set-up a multi-donor Trust Fund
On track; receiving interim debt relief
political instability has driven PRGF off track; staff-monitored programme until March 2002
Receiving interim debt relief but delays in PRSP and PRGF
IMF staff-monitored programme from July 2001 to June 2002 and then possible PRGF
IMF staff-monitored programme from June 2001 to March 2002. Arrears with multilateral lenders
timing of possible PRGF arrangement and HIPC decision point will depend on improved performance in 2001
reached decision point in November 2001
Paris Club interim relief
decision point delay, recalculating DSA
Paris Club (Cologne terms) agreement, problems with non Paris Club comparability
Delays in completing review of PRGF; obtained Cologne terms with PC
Delays in structural reforms; hurricane-related service deferrals expire March 2002
preliminary DSA shows ratios under HIPC thresholds, rescheduled arrears at Paris Club
government has not yet decided to apply for HIPC relief. DSA underway
no current IMF programme
Paris Club multilateral Cologne terms agreed; on track
problems with comparable terms from non Paris Club creditors; possible delays in PRSP
On track for CP; receiving interim relief; agreement on Cologne terms with PC.
no IMF programme since 1981-82, no WB lending since 1987
IMF staff-monitored programme from July to Dec. 2001, negotiations on new PRGF in 2002
Delays in completing PRGF review; Cologne terms
dropped from HIPC list, Paris Club provided Houston terms
received interim Paris Club relief, problems with non-Club comparability
Paris Club interim relief agreed, problems with comparable terms, PRGF review delayed
Decision point delayed to 2002. Interim Naples flows agreement with Paris Club
no current IMF programme
no current IMF programme
Fourth country to reach completion point, major problems with comparable terms
IMF staff-monitored programme for April-September 2001; possible PRGF in 2002
preliminary DSA shows ratios under HIPC thresholds; PRGF review completed
ratios under HIPC thresholds so ineligible, Paris Club Naples stock, PRGF review completed
delays to finalising PRSP, almost all interim relief agreed, problems with non Paris Club creditors

UGANDA'S EXPERIENCE IN NEGOTIATING HIPC DEBT RELIEF

By Fred Matyama, Principal Economist, Ministry of Finance, Planning and Economic Development

One of the HIPC framework's basic assumptions is burden-sharing – which means each of the debtor country's creditors should provide debt relief in proportion to its share of the present value of the country's debt. So when a HIPC country reaches its Decision or Completion Points, it then has to embark on negotiation with all its creditors and sign bilateral agreements, specifying the exact terms for delivery of debt relief.

In terms of modalities, these bilateral negotiations are rarely conducted face to face, partly because of costs, but also it is often faster and more effective to do it by exchange of letters, faxes or diplomatic notes as all the relevant information and data is readily at hand in Government offices. Nevertheless, they can be extremely time-consuming for HIPC government officials – sometimes with little return.

For Uganda, which reached its Completion Point in May 2000, the major multilateral creditors, such as the African Development Bank. International Monetary Fund, European Union and Development Fund, the International Agency for Agricultural Development, the Nordic Fund and the World Bank, have accomplished this in a timely manner and Uganda is receiving the appropriate relief. But this is not always the case with the small regional multilateral organisations and Uganda has yet to finalise agreements with them or receive any relief.

For bilateral creditors, the efforts involved in negotiating agreements have been much more strenuous. Uganda has many more bilateral than multilateral creditors. In addition, some creditors take an extremely long time to reconcile debt data before they will even begin to discuss relief. Others are slow or refuse to respond to many faxes, telephones calls and letters. A considerable number of non-Paris Club creditors refuse to negotiate on HIPC comparable terms. There have been some delays on the Ugandan side, mainly due to internal failures of communication, but these are certainly not the main reasons for delays in debt relief.

Paris Club creditors

Having reached its Completion Point on 2 May 2000, the initial date set for Uganda's Paris Club meeting to negotiate 90% stock reduction was at end-May 2000. However the meeting did not go ahead in May 2000 as some creditors expressed concern about Uganda's involvement in the Democratic Republic of Congo. As a result, the Paris Club was finally convened in September 2000. Uganda's eleven Paris Club creditors – Austria, France, Germany, Israel, Italy, Japan, Norway, Spain, Sweden, the UK and the USA, signed the Agreed Minute on 20 September 2000.

The Agreed Minute set a deadline for concluding all the bilateral agreements within six months. As has usually been the case with many other debtor countries, this deadline proved unrealistic and so by the end of the six months, 31 March 2001, only one agreement had been signed with another one almost concluded, though not yet signed. So Uganda had to seek an extension of the deadline. Although a first extension was granted for three months, it was insufficient and Uganda had to request a second extension. This time, the extension requested was for just 1_ months, to 15 August 2001, based on the progress so far and the intention of Uganda to follow up vigorously on all the creditors to finalise these agreements.

So what has been the outcome to date?

- Uganda has signed agreements with all but three of its Paris Club creditors. One was signed after the final extension because the creditor needed to present the agreement to its Parliament before informing the Paris Club, but the creditor kindly wrote to the Club explaining the delay. Indeed three creditors' ability to sign agreements was delayed because they had not finalised their procedures for providing relief under the Enhanced HIPC Initiative – Uganda being the first case.
- The results of these agreements have been positive, with seven of eleven creditors going beyond the Cologne Terms and cancelling all of Uganda's bilateral debt.
- One of the remaining agreements is expected to be signed as soon as the final amendments have been completed.
- A second may take some time. Although the creditor has committed in principle to cancel 100%, there is need for a fresh reconciliation of the debt numbers and clarifying the definition of loans that are 'eligible' for this relief. This creditor government is notorious for delays in Paris Club bilateral agreements.
- A third has agreed to refinance debt service with grants instead of cancelling, but the modalities of the refinancing remain unclear (will the grants have to be spent on imports from the creditor country or be put directly into our Poverty Action Fund?) in spite of our urgent requests for clarification.
- Although one creditor did agree to 100% debt cancellations, failures of communication resulted in debt service payments being made which need not have been. Obtaining refunds from creditor governments is difficult to achieve!

Non-Paris Club and Commercial creditors

The story as regards negotiating bilateral agreements with Uganda's non-Paris Club creditors is however a great deal more complicated. Only one of Uganda's creditors is close to signing an agreement. A further three have accepted the principle of providing HIPC comparable terms, but nine creditors are flatly refusing to provide relief. There are also a few commercial creditors that are refusing to provide relief. These represent around 25% of our total debt after HIPC relief, and failure on their part to provide relief will add around 36% to our PV/export ratio.

Some of the key issues frustrating Uganda's negotiations with its non-Paris Club creditors are:

- ***Procedural and timing delays***. Some creditors have taken several years to convert an agreement in principle to participate in the HIPC Initiative, into a final decision by their governments or Boards. Another has raised lack of time to negotiate as a problem, so Uganda has written requesting a 5-year grace period with no payment of principal or interest, until the creditor is ready to finalise negotiations!
- ***Difficulties in verifying the debt***. One creditor agreed several years ago to a buyback at 15% of face value on the verified portion, but agreement has not yet been reached on the unverified portion.

CBP ACTIVITIES

- ***Whether or not to apply a cut-off date***. Several creditors have been unclear about how this works, and/or whether they are supposed to provide relief on post-cut-off date debt in line with the Paris Club – one has decided not to. One creditor decided to apply cancellation only to debt whose service payments had already 'matured' – but agreed to rescheduled unmatured debt to make up the rest of its contribution to HIPC.
- ***Legal constraints***. Several creditors have insisted that debt cancellations or reschedulings on interest free terms are not acceptable under their laws, and have insisted on rescheduling with low interest rates.
- ***Refusal to negotiate***. The degree of refusal varies from country to country, with one creditor suing Uganda for full recovery of a debt of which Uganda has no records, another insisting it has nothing to do with HIPC, others suggesting they cannot provide as much relief as HIPC because they are poor countries, and others showing some willingness to negotiate on interest but not on principal.
- ***Failure to respond***. Most creditors did not respond before our 3rd or 4th communication, and some have not yet responded after eight or nine tries!

Faced with these multiple hurdles, we have raised the question of non-Paris Club and commercial creditors repeatedly in international fora, including the IMF and World Bank Annual Meetings and the meetings of the CBP HIPC Finance Ministers. We have received a considerable amount of assistance from the Bretton Woods Institutions staff and like-minded OECD creditors in trying to track down and convince these creditors, but to little avail so far. That is why we recently joined Ministerial colleagues from Eastern and Southern Africa in asking the international community to support our efforts even more wholeheartedly (see article on page 2).

3rd Francophone Debt Negotiations Regional Workshop, Douala (Cameroon), 10-15 Sept. 2001

The last quarter has been extremely busy for the CBP, with our normal heavy workload, our independent review, and preparing phase III with intensive governance meetings:

- the ***1st Regional HIPC Ministerial Meeting*** was attended by Ministers from 8 countries (see article on page 2).
- our ***9th Donor and Steering Committee Meetings*** followed the Ministerial Meeting, and consulted members about phase III. They also allowed an exchange of views on HIPC II, New Financing and Poverty Reduction Strategies, reports on CBP work, and presentations of other capacity-building initiatives by international institutions. (see page 4).

Countries continue to demand CBP assistance on debt strategy updates when approaching their decision and completion points, provoking three follow-up missions during this period:

- A ***Ghana Follow-Up Mission*** in September assisted the Government's HIPC Task Force to update its analysis of HIPC relief, and to present its findings to the Cabinet Economic Management Team, and to a HIPC Awareness Seminar for 160 civil society representatives.
- A ***Burkina Faso Follow up Mission*** in October-November, helped the National HIPC Working Group to update its DSA before completion point. It found that Burkina will be the first country to need additional relief at completion point, due to a sharp fall in cotton prices.
- A ***Benin Follow Up Mission*** in December provided advanced training on CS-DRMS and Debt Pro, and helped the authorities to update their debt strategy ahead of completion point.

As discussed in earlier newsletters, domestic debt is key to debt sustainability in many HIPCs. As a result, the CBP has increasingly helped countries with domestic debt strategy:

- a ***Regional Workshop on Government Securities and Domestic Debt Management***, in September, responded to WAIFEM member states' demand for training in domestic debt instruments. WAIFEM provided lectures on the macroeconomic framework and on instruments, and DRI made presentations on how to design a strategy, preparing the way for a ***Domestic Debt Strategy Regional Workshop*** in 2002.
- a ***Francophone Domestic Debt Regional Workshop*** (with Pôle-Dette) took place in October, with 71 officials from 17 countries. It was organised jointly with the US Treasury and BCEAO/BEAC, which outlined plans to

create regional domestic debt markets. DRI showed countries how to develop domestic debt strategy, analysing Cameroon and applying its lessons to their own debt. Nine countries have significant domestic debt and want further training in strategy; the remaining 8 are issuing new instruments. Following this workshop, the CBP provided detailed support to Cameroon in a ***Domestic Debt Strategy Mission***, which developed a domestic debt policy through a total debt sustainability analysis.

Domestic debt issues also featured strongly in the ***National Debt Strategy Workshops for Honduras and Nicaragua***, in October. Each was attended by between 30 and 35 participants.

- The Nicaragua workshop concluded that much of the benefits of external debt relief might be offset by growing domestic debt. It also highlighted risks of renewed debt unsustainability if external shocks hit the economy before completion point.
- On the other hand, Honduras concluded that the additional relief beyond Cologne terms will allow it to be sustainable even taking into account domestic debt and shocks, provided all relevant creditors (especially non-Paris Club governments) provide the relief.

Two regional workshops built on earlier progress in other specific subject areas:

- The ***Third Francophone Negotiations Regional Workshop*** (with Pôle-Dette) was held in September in Douala, for 21 participants from 5 countries, and observers from 8 more. It simulated country-specific relief and new borrowing talks, to improve negotiating skills and design creditor-by-creditor negotiation strategies. As 3 countries had not reached decision point, the workshop allowed them to learn from advanced countries about HIPC negotiations. It also provided timely assistance to Rwanda and Senegal post-decision point.
- A ***Workshop on Macroeconomic Policy and Poverty Reduction*** and a ***Senior Retreat on Modelling and Forecasting Policies and Priorities*** (with MEFMI) took place in October and November. They were attended by 42 senior officials from 10 countries, and facilitated by DRI, IDRC-Nairobi, the Ghana Ministry of Finance, MEFMI, UNDP, USAID-Botswana and the World Bank. Participants reviewed country progress in economic modelling and forecasting, and in integrating poverty reduction. They examined practical tools for poverty profiles and determinants, targeting and tracking anti-poverty expenditures, integrating poverty reduction into MTEFs, projecting long-term poverty trends, modelling links between macro policy and poverty reduction, and adapting the macroeconomic framework to poverty reduction.

October also saw the first ***WAIFEM staff attachment to DRI***. The Debt Management Programme Officer, Baba Musa, worked to design debt relief and new borrowing strategies for external debt – with emphasis on key issues for WAIFEM states.

Information Products

- The ***CBP website*** has been revised and updated, building the private site to become a technical resource for HIPC debt managers. It continues to prove very popular, with growing numbers of HIPC officials becoming members (www.dri.org.uk).
- ***DRI publications*** on the HIPC CBP, Implementing the Enhanced HIPC Initiative, Paris Club, Debt Conversions, Domestic Debt Sustainability and HIPC Capacity-Building Needs have been produced and are available by emailing publications@dri.org.uk.

Planned activities for January – March 2002

During this transition phase, the CBP aims to execute the following events:

- 2-3 missions under the Rwanda Debt Management and Advisory Project;
- 2 Demand Assessment Missions to Comoros and Madagascar;
- 3 Debt Strategy National Workshops in Bolivia, Côte d'Ivoire and Tanzania;
- 4 follow up missions Ethiopia, Mali, Ghana and São Tomé & Príncipe;
- 1 Institutional Mission to Chad
- 1 Francophone Regional Fiscal Sustainability of Debt Seminar with Pôle-Dette;
- 1 Regional DSA Tools Workshop with CEMLA;
- supporting HIPC participation in reviews of the PRGF, PRSP and HIPC Initiative;
- hosting various regional partner staff and HIPC experts for training.

Details of this work programme are available on our website at www.dri.org.uk.

The DFI Programme on Private Capital Flows has made good progress since June 2001. It is building capacity in 8 countries to monitor and analyse private capital flows, to fulfil international codes and standards, and to allow countries to design policy changes which will improve the stability of international financial flows and their contribution to poverty reduction. The initial report from Tanzania has produced fascinating results

Seven countries are already participating in the programme, with Trinidad and Tobago having just submitted a proposal to join. Of these, two have finished their censuses of private flows, three have virtually finished, and two launched censuses at the end of 2001.

- ***Tanzania*** achieved an extremely high response rate from the private sector (85% of investors, estimated to cover 95% of private capital flows). The findings of the census were very well received by public and private sector stakeholders, donors and regional and international partners at a conference in December 2001. They revealed a high and rapidly rising level of foreign direct investment, and a growing level of private sector debt, with a wide range of sectors receiving investment, and high levels of inflows from other African countries. They also revealed that 71% of investors intend to increase their investments in future, encouraged by political stability, macroeconomic and sectoral policies, and improving infrastructure – though high energy costs, lack of local financing and the HIV/AIDs pandemic need more action by government. Tanzania is examining how to refine policies to take account of investor concerns, and putting in place government structures and funding to ensure that it can execute further censuses, adapting methods to any future policy changes.
- ***Uganda's*** team so far has a 70% response rate from companies, including most of the largest. DFI conducted a follow-up mission in October in consultation with MEFMI,

DFI – FASCINATING RESULTS FROM TANZANIA

and the team is preparing a closing conference to present the findings and analysis of the census.

- ***Guyana***: earlier technical assistance on methodology and implementation produced a response rate of 55%, and the closing workshop is due for first quarter of 2002.
- ***Malawi***: the initial public and private sector sensitisation and training event took place in August, coordinated by DFI and MEFMI, and DFI conducted follow-up missions to review progress in October, finding that response rates are already around 60%. Malawi will finish its census and present its findings to a closing conference in the first quarter of 2002.
- ***Ghana*** launched its census in the third quarter, and has reached a response rate of 30%. DFI and WAIFEM conducted a follow-up mission in December to help the national task force prepare for analysis and reporting on the results, in the first quarter of 2002.
- ***The Gambia***: the awareness and initial training event took place in August, in consultation with WAIFEM. The national task force has launched its census and, with a smaller sample than other countries, is confident of finishing the census in the first quarter of 2002.
- ***Zambia***: the opening awareness and training workshop took place in November with MEFMI support. The Team is finalising methodology for launching its private capital flows survey in January 2002, after the presidential elections.
- ***Trinidad and Tobago***: a team from the Central Bank, Investment Promotion Agency and Statistics Bureau have finalised a proposal highlighting areas for external assistance, in consultation with DFI. Trinidad is funding almost all of the project from its own resources.

Methodology and Information Products

We have continued to develop methodology, making it fully flexible to meet individual country needs for monitoring and analysing private capital flows, while building wherever possible on recommendations by previous international assistance, to avoid duplication. The latest tools, available to participating countries, are even user-friendlier census forms; tools to track all the various stages of the census; coding tools allowing countries to map their results into balance of payments and national accounts statistics; and a guide to analysing and reporting results.

DFI has also been developing a series of information products to share information among countries. A DFI/LSE study on intraregional private capital flows in Eastern and Southern Africa has been finalised. A publication on best practices for monitoring private sector debt will be published in early 2002 and a paper on best practices in monitoring and analysing private capital flows in mid-2002. All these papers will soon be available on the DRI website (*www.dri.org.uk*), as well as the training materials and other tools used by DFI.

Liaison with cooperating partners

DFI is committed over the medium term to transferring assistance to the same regional partners as DRI, and is already putting structures in place to guide that transfer. It has continued to work extensively with experts from the MEFMI region and in October met MEFMI HQ experts to share and discuss methodology, and to plan joint work. DFI has also agreed liaison arrangements with WAIFEM, which has participated in the Ghana follow-up mission. DFI will invite all of its regional partners to the international workshop (see below).

In October DFI visited the IMF and World Bank, following their expressions of interest in the programme, to explain its methodology and results in improving country capacity to monitor and analyse private capital flows. The BWIs were highly positive about DFI's intensive in-country capacity-building and country-specific flexible approach to methodology, which they saw as complementary to shorter-term technical assistance missions.

Projected work programme

The pilot programme is due to end on 31 March 2002, by which time follow-up missions to The Gambia, Ghana and Zambia, and most remaining closing workshops would have taken place. To finish the pilot phase, DFI will organise with its partners an international workshop to discuss best practices in monitoring and analysing private capital flows and private sector debt, drawing lessons for future methodology, and identifying key analytical issues for future work.

Planning for a Sustainable Phase II

DFI's work is demand-driven. In recent months, many countries have approached DFI to discuss involvement in a wider programme, which would begin in the second quarter of 2002. These include 6 more Anglophone African countries, 2 PALOPs, and several Francophone and Latin American HIPCs looking to track and analyse private finance after debt relief. All countries involved in the present programme have also expressed the will to continue work, while reducing the role of external assistance and increasing their own financial contributions, to ensure sustainability with lower donor funding. DFI is already talking to several donors about a 3-year phase II programme.

DFI Malawi Sensitisation & Training Workshop, 27 July – 2 August 2001

TECHNICAL QUESTIONS

Can a country expect to receive 'additional' relief if it is unsustainable at its Completion Point?

The answer is 'it depends'. If at completion point a country's PV/XGS (or PV/DBR) ratio, after taking account of all additional bilateral cancellations, is above the HIPC threshold by less than 5 percentage points or the ratio is above the threshold for only a year or two, then it is unlikely. Similarly if the ratio is above the HIPC threshold because of significantly higher new borrowings than had been projected at the decision point, then additional relief is unlikely.

Originally the additional cancellations provided by bilateral creditors beyond the Cologne Terms were supposed to provide a 'safety margin' to enable countries to achieve ratios well below HIPC thresholds. But now these cancellations are being treated as part of the 'HIPC process' and, provided that a country's ratio is below the HIPC threshold after including these cancellations, it is deemed to be sustainable. For many HIPCs, recent commodity price falls have pushed their ratios back up to HIPC thresholds, so they will get no extra 'safety margin'.

If the ratio is above 155% for more than 3-5 years and is not caused by higher that expected new borrowings, then additional relief may be forthcoming if there has been a *'fundamental change in a country's circumstances due to exogenous developments'*. This then begs the question what is meant by a fundamental change in a country's economic circumstances?

In their Board paper of August 17, *Enhanced HIPC Initiative – Completion Point Considerations* (available on the IMF website at www.imf.org) the BWIs set out some operational guidelines to indicate that the shock must be identifiable (such as droughts, hurricanes or commodity price shocks), have occurred between the decision and completion points, and have been beyond the control of the country's authorities. As a rule of thumb the adverse effects of such a shock should be expected to last for at least 3-5 years to be considered fundamental, and thereby have an impact on the 3-year average of exports. But a large shock in one year can also have a significant impact. In this case, a country will be eligible for additional relief in order to reach debt ratios below the HIPC thresholds. While the BWI Boards will in principle agree the relief at the completion point, it has to be provided on a burden-sharing basis, so financing by other creditors needs to be obtained.

On this basis, the Boards of the BWIs have already declared several countries sustainable. The first test case of unsustainability will be Burkina Faso, which has suffered from the sharp drop in world cotton prices and is expected to have its completion point document discussed by the BWI Boards in the first quarter of 2002. However, coffee, cotton and copper exporting countries have all experienced significantly lower export earnings in 2001 and further commodity price falls may well result in them needing additional debt relief to achieve long-term debt sustainability.

What is the impact of lower CIRR rates on the calculation of HIPC debt relief?

International interest rates have been falling since the beginning of 2001 and even more so in recent months, as most of the major developed economies fall into, or try to avoid recession, especially in the aftermath of the events of September 11. As result the CIRR rates used to calculate the present value of debt have also been declining significantly. For instance, the July-December 2001 average CIRR rate for the US dollar is 5.67% compared with 6.25% a year ago as shown in the table below.

As a result of the lower CIRR rates, the present value of HIPCs' debt is increasing. In other words, HIPC debt is less concessional that it previously was. This is particularly notable in the case of Japanese yen loans where the grant element for a loan having a 1% interest rate, 10 years grace and 30 years repayment is just 7.5%. This is not to say that Japan's loans are more expensive than those of other creditors – it is just another demonstration of the sometime perverse magic of present value.

In terms of the HIPC Initiative, the larger the present value of debt, the higher is the PV/XGS ratio and hence the more unsustainable the debt burden. So countries coming up to HIPC decision points in 2002, based on DSAs using on end-2001 debt and CIRR rates, should receive considerably more debt relief than if they had reached decision points in 2001.

However, the impact on reassessing country debt relief needs at completion point is unlikely to be as important. As can be seen in the table above, the change in average CIRR rates for July-December 2001 compared to July-December 1999 (which were used by most HIPCs in the decision point DSAs), while still substantial for dollars, is less dramatic for yen and euro-denominated debt. So while countries expecting to reach their completion points in 2002, on the basis of DSAs using end-2001 debt data and average July-December 2001 CIRR rates, can expect the present value of their debt to rise because of the lower CIRR rates (all other things being equal), the size of this increase – and therefore on additional relief needs under HIPC – will depend on the currency composition of their debt. It is not yet clear whether the BWIs will grant more relief to countries purely on the basis of a change in CIRRs, between decision point and completion point.

CIRR Rates

Currency	Average July-Dec 2001	Average July-Dec 2000	Average July-Dec 1999
Japanese yen	1.45%	2.04%	1.98%
UK Pound	6.10%	6.73%	6.70%
US dollars	5.73%	7.05%	7.04%
Euro	5.67%	6.25%	5.47%

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