HIPC DEBT STRATEGY

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

Debt Relief International

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The second meeting of HIPC Finance Ministers took place on 7 June 2000 in Geneva, and was jointly organised by DRI and the Swiss State Secretariat for Economic Affairs. The number of HIPCs represented rose to 20, and the level of representation was higher than at the first meeting in Copenhagen in December 1999. Ministers agreed on a "Geneva Declaration" which has since been transmitted to all HIPCs, to the Managing Director of the IMF and the President of the World Bank, to heads of UN and other international organisations, and to all G8 and like-minded donor Ministers of Finance and Development.

Co-Presidents of the HIPC Ministerial Meeting: Gabriela Nuñez de Reyes, Honduras Finance Minister, and Laurent Guye, Minister, Switzerland State Secretary for Economic Affairs

IMPLEMENTING HIPC II:
THE GENEVA DECLARATION

Ministers congratulated the international community and the Bretton Woods Institutions on the enhanced framework for HIPC II, and on efforts to enhance capacity in HIPC countries.

Nevertheless, they made the following suggestions for further improvement:

Eligibility Criteria

Ministers recommended that eligibility criteria be more tailored to HIPC needs by:

- Ensuring that relief provides much lower debt service to revenue ratios, and increases resources available for poverty reduction, especially between decision and completion point.
- Including all debts which creditors have not cancelled (not defining them as "passive").
- Excluding unprocessed re-exports from exports, and taking more note of export volatility.
- Reducing the sub-criteria on export/GDP and revenue/GDP, especially for countries with large informal sectors.
- Taking into account the domestic debt burden and resolving it with non-HIPC resources.

Required Financing of HIPC Debt Relief

Ministers urged all creditors to accelerate and increase their contributions to HIPC by:

- Accelerating relief and maximising it before completion points.
- Applying correct commercial interest rates, and eliminating fees and penalty interest rates.
- Providing more information on cancellations, notably the debt covered and the timing; and not counting "fake" cancellations which require spending on new projects or which refinance debt service with new grants.
- Implementing the recent Paris Club decision to reduce post cut-off date debt where necessary, and continuing to defer post cut-off date service and moratorium interest, especially between decision and completion points, where country needs justify this.
- Including postal, hospital and monetary debt in reduction.
- Formalising recent BWI efforts to include non-Club governments in the Initiative by including them in Paris Club, Consultative Group or Round Table meetings, and giving them (especially HIPCs which are creditors) leeway in judging comparability with the Club.
- Continuing special measures for multilateral arrears clearance, especially programme aid.
- Finalising BWI short-term financing needs for HIPC II (notably from the US Congress).
- Filling long-term financing gaps for multilateral institutions' contributions to HIPC II.
- Front loading relief on multilateral debt, especially from Regional Development Banks, by up to 80% annual service reduction from decision points, as proposed by AfDB management.

New Financing Needs

Ministers stressed that Poverty Reduction Programmes also need stable and predictable commitments of new aid, to enhance budgetary planning. They therefore urged all institutions to:

- Ensure genuine additionality of their contributions, by not offsetting debt relief by cuts in new flows, and by avoiding cutting programme aid when debt problems appear solved.
- Strongly oppose threats of cuts in new loans for countries going for the HIPC Initiative by some creditors (e.g. Japan), contrary to the spirit of the Cologne Summit.
- Maximise concessional financing on IDA-comparable or grant only terms.
- Tailor their aid to support nationally designed Poverty Reduction Programmes, allowing HIPCs to take lead aid mobilisation and management.
- Continue to fill special aid needs for reconstruction/demobilisation after wars or disasters.
- Make DSAs tripartite from the start, and accelerate HIPC country documents and DSAs.

Poverty Reduction Strategies

Ministers described the far-reaching processes underway to revise past poverty reduction policies and produce PRSPs, and reaffirmed their support for HIPC country leadership. They urged the international community to:

- maximise early debt reduction to fulfil high expectations of poverty reduction in all sectors of society and improve government credibility.
- ensure PRSPs continue macro stability and fiscal discipline, to maintain the purchasing power of the poor, but also cover growth, employment, savings, inflation and infrastructure.
- Provide predictable amounts and timing of relief to assist planning and budgeting.
- Supply assistance in collecting and analysing the complex information needed for PRSPs.
- Tailor participatory processes to national circumstances and traditions of participation, with varying definitions of civil society due to its diversity, lack of co-ordination and weakness of organisation, and maximise civil society involvement in implementation as well as design of PRSPs.
- Base PRSPs on supplementing and costing existing poverty reduction policies which have already been discussed with donors, rather than reinventing the wheel.
- Limit conditions to a few clear and realistic measures within the control of government, and reduce the number of overall conditions in PRGF programmes.
- Allow more time to produce final PRSPs, while providing relief based on interim PRSPs.
- Allow HIPCs to lead donor co-ordination, possibly through local groups of donors who provide programme aid for poverty reduction.
- Take into account decentralisation for implementation in rural or remote areas.

HIPC Capacity Building

Ministers examined capacity building needs for implementing HIPC II. They were unanimous on the central importance of capacity building, which would provide institutional stability, knowledge and skills to carry out debt management, macro-economic forecasting and control, and poverty reduction programmes without depending on external technical assistance. They noted the desirability of sharing knowledge and experience among HIPCs, and of decentralising capacity-building to regional institutions owned by HIPC governments, with international organisations acting as suppliers of information on international best practice.

They pointed out the failure of many programmes to develop sustainable national capacity, leaving foreign expertise and donors dictating programmes, and undermining national ownership. They also urged HIPCs to co-ordinate foreign actors – notably those who set conditions and evaluate programmes – to avoid multiple repetition of the same work.

Ministers agreed on the need to increase capacity in seven areas:

- Institutional development around public finance and debt management, involving all national actors including civil society, sector ministries and decentralised structures, and training together teams of debt managers, macroeconomists and poverty reduction programmers, especially those whose task is to co-ordinate and manage drafting PRSPs;
- Debt recording and analysis software. They expressed frustration on problems with debt recording systems, and requested clarification on which DSA software is being used by the BWIs and more advanced and regular training on DSA software.
- Debt analysis and design/execution of debt strategies. While referring positively to the CBP work in this area, they expressed the need for more help, especially on domestic debt.
- Renegotiation of debt, especially to governments, IFIs and commercial creditors.
- New financing policy after debt reduction (loans, grants and private capital flows), especially maximising concessional finance, accelerating disbursements, and understanding donor procedures and priorities.
- Macroeconomic data and forecasting: reliable economic data and up-to-date and usable economic models, based on improving data-gathering and analysis capacity by reinforcing statistical offices and sensitising civil society to the need for reliable statistics.
- Developing, implementing and monitoring realistic poverty reduction strategies, particularly the construction of Medium-Term Expenditure Frameworks, sector budgeting and programmes, with participation by all key civil society actors.

Finally, Ministers urged all organisations involved to maximise co-ordination and sequencing in capacity building to avoid duplications or gaps, and to continue to develop new techniques, instruments and procedures to match the growing sophistication of debt issues.

With distribution to the highest levels of international financial and development bodies, it is hoped that the Ministers' Declaration from the 2nd Meeting of HIPC Ministers of Finance will provoke an appropriate response from the forthcoming G8 Summit that will take place in Okinawa, 21-23 July 2000.

A follow-up to this year's successful meeting, and a continuation of the work started by the HIPC Ministerial Network in December 1999, is currently being planned to coincide with the IMF/WB Annual Meetings which take place in Prague, 23-27-September 2000.

FINANCING RELIEF UNDER HIPC II

Since the adoption of HIPC II, progress in mobilising financing has been slow but steady. This article looks in turn at how the multilateral organisations will contribute their relief, at the mobilisation of financing for their contributions, at recent decisions by the Paris Club, at mobilisation of non-Paris Club creditor governments, and at recent developments in debt cancellations which go beyond the HIPC framework. More details on individual creditors will be available on our website from August.

Multilateral Organisations

The Bretton Woods Institutions have made rapid progress in defining their methods of contributing debt reduction. Both will provide debt service reduction in a heavily front-loaded way. The IMF will provide up to 60% of its total present value (PV) reduction through this method before the completion point (a maximum of 20% in any one year), by reducing debt service by up to 100% if necessary. The World Bank will provide up to one-third of its PV reduction by the decision point, using a minimum of 50% debt service reduction each year.

IADB proposes to deliver debt relief within a 20-year period, with front-loading during the first 8 year through a cancellation of 50% of the FSO debt service due. This proposal stills needs to be agreed formally by their Board of Governors.

The situation is less clear for the African Development Bank, where final agreement has yet to be reached. In May the AfDB management proposed a maximum of 40% of its PV reduction before the completion point, with a ceiling of 80% on the annual reduction of debt service. However, pressures by some major non-African shareholders may lead these percentages to be reduced considerably unless HIPC governments intervene actively within the AfDB Board.

The contributions of other multilaterals are even less clear. While they tend to have established procedures left over from HIPC I, it is not obvious that all will advance the dates at which these are implemented to front-load the relief before the completion point. It looks as though those more generous institutions which chose to front-load debt service reduction under HIPC I (such as the EU, IFAD and the Nordic Development Fund) may do the same under HIPC II. On the other hand, it is not clear whether those organisations which decided to reschedule under HIPC I (such as BADEA, IsDB and the OPEC Fund) will agree to advance the date of their stock rescheduling to the decision point, rather than for example just rescheduling flows for interim assistance.

Some multilaterals are also having problems mobilising financing for their contributions. The IMF has almost completed mobilisation – it is awaiting only a decision of the US Congress. The World Bank has mobilised all its immediate needs – but will require other donor contributions to avoid longer-term financing gaps. The AfDB financing is already in place thanks to an EU contribution to the HIPC Trust Fund established at the World Bank– and is sufficient to go for the more generous debt relief option proposed by the AfDB management. IDB financing is being finalised thanks to contributions from the US (subject to Congress approval), European shareholders and major Latin American governments. But some smaller sub-regional multilaterals were having problems mobilising contributions under HIPC I, and these will be more significant under HIPC II, again leading to requests for more donor resources – in addition to the US$2.4 billion already pledged. Donors nevertheless rightly feel that each multilateral should exhaust all prudent measures to fund relief from its own resources (especially by accounting for debt relief as it is actually received annually by the HIPC, rather than up front for the whole relief period) before their aid money is diverted to fund multilateral relief.

Paris Club

As reported in our last newsletter, the Paris Club agreed to the somewhat cumbersome Cologne terms (with extremely long grace and maturity periods for Option B). Nevertheless, it is rapidly becoming clear that for many HIPCs the Club will need to implement a 100% reduction of pre cut-off date debt for the country to reach HIPC II sustainability thresholds. For a considerable number of HIPCs, even this will not be enough, so the Club decided in May, on a case-by-case basis, to cancel post cut-off date debt where this is necessary to achieve sustainability.

Even after this generosity, HIPC governments have continued to point out that Paris Club treatment could be made more comprehensive by including various types of special (monetary, postal and hospital) debts. They have also stressed that the structure of Paris Club terms provides very little front-loading of relief, and therefore urged the Club to defer payments of moratorium interest or post cut-off date debt service falling due between the decision and completion points, in order to reduce debt service and free funds for poverty reduction, as it has already done in many past cases for countries with severe liquidity problems. HIPCs have also viewed with alarm attempts by some creditors to charge what HIPCs regard as excessive interest rates, fees or penalty interest rates in their Paris Club bilateral agreements.

Non-Paris Club Governments

There has been relatively little progress in mobilising contributions from these governments since the last newsletter with many continuing to refuse to participate in the HIPC Initiative. Some governments such as Algeria, Kuwait and Saudi Arabia have been showing more generosity than before, but the general picture remains disappointing. Though the Bretton Woods Institutions have continued their efforts to increase non-Club contributions (notably by producing a Board paper on this issue in April, and by holding intensive discussions with the relevant Executive Directors of the BWIs), and the Paris Club has agreed to admit any of these creditors which want to become members, the response from non-Club governments has been meagre. It is even less likely that they will wish to cancel 100% of debt or to treat post cut-off debt, especially in cases where they are continuing to disburse new loans to HIPCs. The HIPCs themselves feel it would help if these creditors were allowed to pledge debt relief in more relaxed events, such as Consultative Groups or Round Table meetings, and also that the international community needs to be proactive in designing solutions tailored to the financial situations of the different creditor countries – notably by finding money to pay for debt relief by HIPC countries which are creditors of other HIPCs (as the IMF and World Bank Boards agreed in April), and exempting those which are still disbursing from having to provide debt relief.

Debt Cancellations

Since mid-1999, there has been a flood of declarations by OECD governments that they are cancelling HIPC debt. The truth is somewhat more complex. Some governments are cancelling only pre cut-off aid (ODA) debt, which is less than the minimum they promised to do at the Cologne G8 summit. Some are cancelling only ODA pre and post cut-off date debt. Others are cancelling export credit debt as well. Most (with the notable exception of Canada, the UK, the US and some other like-minded governments) seem determined to delay their cancellations until completion points, which means that most HIPCs will not see them until well into the new millennium.

Even some of the cancellations are not quite what they seem: for example, France is insisting that the local currency equivalent of cancellations be given to French NGOs to implement projects. If these are not already included in the HIPC government budget, this will provide no additional relief whatsoever to HIPCs because they will merely be paying the service to French NGOs instead of to the French government. Similarly, Japan's cancellation will be done in a complicated manner which involves countries paying the debt service due and then receiving grants as compensation. But, because these grants have to be spent to purchase imports, this also does not free any budget funds and therefore there is no additional relief. And of course the US cancellation is – as with all US pledges – subject to approval by Congress. It is hoped that some G8 creditors will go further in their cancellations following the G8 Okinawa Summit.

As the HIPC Ministerial Declaration (see page 2) makes very clear, in spite of the excellent efforts from all sides over the last 12 months, much more work is needed before HIPC II will be fully financed.

HIPC INITIATIVE
COUNTRY PROGRESS AND PRSP STATUS (JUNE 2000)

Country	HIPC Initiative Progress								PRSP Status
	1997-99		2000				2001-2	Explanation	
			Q1	Q2	Q3	Q4			(I = interim)
Countries which had already reached decision/completion points under HIPC I									
	Decision	Completion							
Benin	7/97	ineligible		2nd DP				small delay due to non-completion of conditions	I-PRSP ready, preparing final PRSP
Bolivia	7/97	7/98	2nd DP			2nd CP		complex PRSP consultations with civil society	preparing final PRSP
Burkina Faso	9/97	6/00		2nd DP				2nd CP to be defined - BF expects within 2000	Final PRSP presented to BWIs
Cote d'Ivoire	9/97	9/00				2nd DP		political instability and track record problems	preparing I-PRSP for DP
Guyana	12/97	6/99			2nd DP			delay due to track record problems and finalisation of PRSP	preparing I-PRSP for DP
Mali	9/98	9/00			2nd DP			delay due to non-completion of structural/social conditions	preparing I-PRSP for DP
Mozambique	6/98	6/99		2nd DP			2nd CP	finalisation of final PRSP requires 9 months	preparing Final PRSP
Senegal	7/97	ineligible		2nd DP				Board presentation expected when I-PRSP ready	preparing I-PRSP
Uganda	4/97	4/98	2nd DP	2nd CP				finalising creditor contributions to HIPC II	Final PRSP being implemented
Countries which have reached or are expecting to reach decision points under HIPC II									
	Preliminary HIPC Documents								
Angola							DSA	preliminary DSA shows ratios under HIPC thresholds	no PRSP process
Burundi							DP	no current IMF programme	no PRSP process
Cameroon					prelim.	DP		delay in some PRGF conditions	preparing I-PRSP for DP
Central African Rep.							DP	no current IMF programme	preparing I-PRSP for DP
Chad				prelim.		DP		building track record under IMF programme	preparing I-PRSP for DP
Congo Dem. Rep. of							DP	finishing post-conflict programme with IMF	no PRSP process
Congo Rep. of							DP	no current IMF programme	initiating preparation of I-PRSP
Equatorial Guinea							DSA	GDP rise means graduation from HIPC list	no PRSP process
Ethiopia							DP	IMF programme suspended due to conflict	preparing I-PRSP for DP
Gambia				DSA			DP	initial DSA indicates HIPC status	preparing I-PRSP for DP
Ghana					DP			government to take a final decision on HIPC shortly	I-PRSP approved by BWIs
Guinea	12/99				DP			slight delay in implementing PRGF preconditions	preparing I-PRSP for DP
Guinea Bissau					DP			delay due to conflict - PRGF due shortly	preparing I-PRSP for DP
Honduras	12/99			DP				small procedural delays - DP now approved	I-PRSP approved by BWIs
Kenya							DSA	preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP
Lao PDR							DSA	government analysing a decision on HIPC	preparing I-PRSP
Liberia							DSA	no current IMF programme	no PRSP process
Madagascar							DP	building track record under IMF programme	preparing I-PRSP
Malawi				prelim.	DP			added to HIPCs in 1999 due to DSA	preparing I-PRSP for DP
Mauritania	1/99		DP				CP	floating completion point under HIPC II	preparing Final PRSP during 2000
Myanmar							DP	no current IMF programme	no PRSP process
Nicaragua	10/99					DP		delay in fulfilling DP preconditions	preparing I-PRSP for DP
Niger					prelim.		DP	IMF programme due for renewal shortly	preparing PRSP during 2000
Nigeria								dropped from HIPC list due to non-IDA only status	no PRSP process
Rwanda					prelim.	DP		building track record under IMF programme	preparing I-PRSP for DP
São Tomé e Príncipe							DP	building track record under IMF programme	preparing I-PRSP for DP
Sierra Leone							DP	no current IMF programme	no PRSP process
Somalia								no current IMF programme	no PRSP process
Sudan								no current IMF programme	no PRSP process
Tanzania	9/99			DP			CP	small procedural delays - DP now approved	preparing Final PRSP during 2000
Togo							DP	no current IMF programme	preparing I-PRSP
Vietnam							DSA	preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP
Yemen							DSA	preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP
Zambia					prelim.	DP		building track record under IMF programme	preparing I-PRSP

Source: DRI & IMF documents

Implementation has continued to make gradual progress, with 20 countries expected to reach a decision point by the end of 2000, and 2 or 3 reaching completion point.Most countries are advancing rapidly on their PRSPs – interim for decision points and final for completion points. However, in spite of enhanced work efforts by the HIPCs themselves and the Bretton Woods Institutions, there have been some delays compared to the schedule predicted by the BWIs earlier this year (notably for Guinea-Bissau, Malawi, Mali and Nicaragua). These delays reflect the complexities of agreeing PRSPs through processes involving participation by civil society, and then getting approval from donors and the BWIs, as well as HIPC problems implementing the growing lists of conditions under existing and new programmes. They are causing considerable concern among HIPC Ministers, who suggested in their Geneva declaration several ways to speed progress. They urged that conditionalities be reduced rather than increased, by postponing those conditions which were less directly essential to poverty reduction; that more flexibility be shown in allowing waivers on existing structural conditions which were not priority poverty reduction measures; that new poverty programmes should build on existing ones agreed with donors rather than starting again, and that HIPC documents should contain a limited number of key benchmarks which were clearly under government control. They have also urged more donor co-ordination to avoid cross-conditionalities, and more exchange of information on best practices in designing PRSPs.

CBP ACTIVITIES
from March to December 2000

The HIPC CBP has continued to meet HIPC needs in enhancing debt management capacity and programming the use of potential HIPC relief in poverty reduction programmes. Between March and June 2000, the CBP continued to organise numerous missions, regional and national training events and policy-maker meetings.

- Demand Assessment Missions to the Central African Republic and the Gambia. Both missions resulted in urgent requests for capacity-building training to prepare them for HIPC II discussions – for CAR in the 3rd Francophone Regional Debt Strategy Workshop, and for the Gambia in a National Workshop.
- The Honduras Debt Strategy Workshop took place in Tegucigalpa, from 6 to 15 March, and attracted 40 participants from the Finance Ministry, Central Bank and agencies in charge of Poverty Reduction. The national team produced a debt strategy report analysing the implications of HIPC II, and identified areas that need further reinforcing of capacity. The workshop was very well timed, allowing the government to play its full tripartite role at a key point in HIPC negotiations.
- The Benin Debt Strategy Workshop was held from 25 April to 5 May in Cotonou, and was attended by 32 participants from key government agencies, who were trained in debt sustainability analysis and poverty reduction programming. They produced a Debt Strategy report which was presented to high level policy-makers at an Awareness Seminar for consideration and which (by clarifying issues relating to passive debt and re-exports), played a key role in increasing Benin's potential relief under HIPC II.
- The 1st Latin American Debt Negotiations Regional Workshop took place in Montelimar, Nicaragua, from 2 to 6 May (see opposite page).
- The 3rd Francophone Regional Debt Strategy Workshop in Yaoundé, Cameroon, attracted 50 participants from 4 countries (see page 10).
- Consultations with International Financial Institutions on the CBP progress and scope for co-ordination were held in London (COMSEC) and Geneva (UNCTAD).
- The 2nd HIPC Ministerial Meeting was organised in Geneva, Switzerland on June 7, and was attended by senior representatives of 20 HIPCs (see article on page 2)
- DRI also organised the 6th HIPC-CBP Steering Committee Meeting in Geneva, in June at which donors approved a CBP work programme for June – December 2000.
- DRI has continued to provide comprehensive capacity building training in debt strategy through long-term consultants in Honduras, Nicaragua, Guyana, Guinea Bissau and São Tomé e Príncipe (STP).
- Progress continued in the transfer of the CBP to regional institutions. The CBP signed a transfer agreement with MEFMI for 2000-2001 for Anglophone Eastern and Southern Africa. DRI has formally launched the transfer to BEAC in Francophone Africa, at the 3rd Francophone Regional Workshop. DRI continued to make progress in Anglophone West Africa finalising the details of a transfer agreement with WAIFEM. Finally, in Latin America the CBP has continued to cement our relationship with CEMLA through detailed discussions of the design of the transfer programme. All regional partners attended the 6th Steering Committee Meeting in Geneva, and held bilateral discussions with DRI's donors.

DRI reaches new heights: Alison Johnson at 6000m in the Himalayas!

The CBP's next 6 months will be even more challenging. They will include:

- 8 Demand Assessment Missions to Burundi, Madagascar, Rwanda, Côte d'Ivoire, Equatorial Guinea, Liberia, Vietnam and Laos;
- 7 National Workshops in Angola and Zambia (with MEFMI), The Gambia, Guinea Bissau, São Tomé e Príncipe, and Niger and Chad (with BEAC);
- 8 Follow up Missions to Benin, Mali, Burkina Faso, Guinea, Togo, São Tomé e Príncipe, Guinea Bissau and Bolivia;
- 2 Debt Negotiations Regional Workshops in Africa, one for Francophone and another one for Anglophone HIPCs;
- 2 Macro Forecasting Regional Workshops, one for Latin America (co-organised with CEMLA), and the second with Francophone African HIPCs (with BEAC);
- 1 Debt Strategy Training for Trainers Workshop for the MEFMI region;
- An international seminar on Debt Management and Macroeconomic Policies for the Latin American region to be jointly organised with CEMLA;
- An international seminar on Debt Relief and Poverty Reduction to enhance the CBP methodology in this area, to be held in London;
- The 7th HIPC CBP Steering Committee Meeting in late November; and
- A follow-up HIPC Ministerial Meeting at the IMF/World Bank Annual Meetings in September in Prague.

LATIN AMERICAN NEGOTIATIONS REGIONAL WORKSHOP

The 1st Latin American Negotiations Regional Workshop was held over 5 working days in Montelimar, Nicaragua (2-6 May 2000). The three participating HIPCs (Bolivia, Honduras and Nicaragua) are well advanced in their HIPC process and in implementing the CBP recommendations. The workshop aimed to deepen their skills in renegotiating existing debt and negotiating new loans, by simulating debt negotiations creditor by creditor.

The participants were first trained in the concepts and terms available from different creditors and lenders, and then simulated negotiations with their creditors using their own live data and documentation. Debt Pro was also used to calculate whether creditors and lenders were offering appropriate terms, in particular to ensure that they were providing sufficient present value reduction for countries to reach HIPC targets.

After a formal opening by the Nicaraguan authorities and IMF representative, the first two days trained the participants in Paris Club negotiations. Countries prepared their own memoranda and debt relief requests, and then negotiated with the Club. DRI resource persons played the roles of the Paris Club Secretariat, multilateral organisations and creditor countries. Delegations negotiated through the Chairman of the Club to reach "agreed minutes", and signed them after careful scrutiny. Key issues included the treatment of the debt service currently subject to moratoria for Honduras and Nicaragua, and the percentages of relief needed by countries from the Cologne Terms.

The workshop proceeded to the lengthy and tough bilateral Paris Club negotiations with creditors such as Japan, Germany, Spain and Russia, covering issues such as interest rates and the treatment of Russian debt by the Paris Club. All countries learned that they could make major additional progress in these negotiations, and designed an agenda for implementing future bilateral negotiations.

Negotiating comparable terms with the non-Paris Club creditors was a difficult experience for the participating teams, in particular those held with Latin American and Arab creditors. As in all sessions, countries learned from their neighbours and from other HIPCs that more relief was sometimes possible, and are therefore accelerating their efforts to achieve comparable terms with each of their non-OECD creditors with stronger support from the international community.

The teams then proceeded to calculate the burden sharing requirements of different creditors in the context of the HIPC Initiative and to negotiate front-loading of the relief provided by multilateral creditors (in particular, regional multilateral organisations), to ensure a sufficient debt service reduction in the initial years of implementation of the HIPC Initiative. They faced up to the major difficulties of achieving such front-loading in order to invest in reducing poverty rapidly.

The next session focussed on debt conversion. Countries evaluated three different conversion proposals, chose one to negotiate, and then defined the scope for debt conversion within their debt portfolio.

The new borrowing session described the institutional structures, procedures and calculations necessary to ensure that new loans match the required grant element, and then countries evaluated and negotiated several new loan proposals.

On the final day, countries presented their future strategies for negotiating with all types of creditors at a plenary session, receiving comments and questions from other countries and resource persons. All countries took away with them a document summarising the results of their negotiations, the future agenda and most importantly, all identified prospects for increasing their relief under HIPC II.

THIRD FRANCOPHONE REGIONAL DEBT STRATEGY WORKSHOP

The 3rd Francophone Debt Strategy Regional Workshop was held from 15 to 26 May in Yaoundé, Cameroon and attracted 50 participants from 5 countries (Central African Republic, Chad, Congo Brazzaville, Niger, and two Equatorial Guinean observers). The four fully participating teams were composed of officials responsible for debt data, debt negotiations, macroeconomic analysis and poverty reduction analysis and programming, were led in all cases by senior officials.

The workshop took place at the excellent premises of the Bank of the Central African States (BEAC) in Yaoundé, and initiated formally the programme of joint activities between DRI and BEAC, which will transfer CBP programmes to the Francophone African region. The Secretary General of BEAC opened the Workshop in the presence of representatives of the donor community including the African Capacity Building Foundation, which also finances BEAC's debt management programme.

The Workshop was preceded by preparatory missions in April and May, during which DRI-funded regional experts visited the four participant countries to ensure appropriate preparation of data and composition of national teams.

Three international and four regional DRI experts facilitated the workshop, complemented by the Director of the BEAC Debt Unit, a representative from BCEAO and a representative of CEMAC.

All country teams produced preliminary debt strategy reports analysing the implications of the HIPC Initiative for their countries, in terms of potential debt relief, next steps in the process, poverty reduction efforts and preliminary ideas for programming the use of debt relief. They also identified issues for urgent action in the context of HIPC, including the assembly of data on parastatal debt, progress in debt data validation, the need to review carefully the assumptions for projecting the main macroeconomic variables, and more analysis of poverty indicators and policies. The workshop was particularly vital for Central African Republic, Chad and Niger, which are approaching their decision points in late 2000 or early 2001. Finally, they identified areas of capacity-building need, including installation of internationally-reputable debt recording systems, improving their skills in debt negotiations and macroeconomic forecasting, the development of country-specific macroeconomic models, and improvement in capacity for poverty reduction programming.

Observers from Equatorial Guinea that has recently stopped being a HIPC joined the final sessions to discuss experiences with Central African HIPCs and to discuss future assistance from BEAC on debt management capacity-building.

DRI LAUNCHES NEW INFORMATION SOURCES

During the last year, the HIPC-CBP has received an increasing number of requests for information on the programme, and in particular, from HIPC debt managers and regional partner organisations for on-line training documentation and information and reference materials. To fulfil this demand and provide continuous sources of up to the minute information on debt strategy and analysis and the CBP, DRI is launching a website and a publications series.

The Website will provide public information on the HIPC CBP to a general audience, but more importantly will have a private members' only section for HIPC debt managers covering confidential or sensitive information. This will allow HIPC debt managers to download for example the latest debt relief or new borrowing terms available from individual creditors, or detailed confidential information on macroeconomic forecasts or poverty reduction programmes, and to access a HIPC debt managers' forum for exchange of information.

The English and French sites will be up and running by August, followed by the Spanish and Portuguese sites in September. Registration for the members' only site will be available on-line. To join our electronic mailing list and to receive notification of the website launch, simply email your request to Maria Clara Attridge at DRI on the email address on the rear of this publication.

The Publications Series will put into the public domain a series of documents which explain key technical aspects of debt analysis and negotiation, macroeconomic forecasting and poverty reduction, during 2000-2001.

The 2000 series will include updated editions of:

- The HIPC Capacity Building Programme
- Implementing HIPC II: Key Issues for HIPCs
- The Paris Club
- Debt Conversions
- Analysing Domestic Debt Sustainability
- Best Practices in Macroeconomic Forecasting
- HIPC Capacity-Building Needs

The 2001 series will include revised editions of:

- The Fiscal Sustainability of Debt
- Financing Poverty Reduction in HIPCs
- Negotiating New Financing for HIPCs
- HIPC Experiences of Debt Renegotiations
- Best Practices in Private Sector Debt Management
- Monitoring and Analysing Private Capital Flows
- Best Practices in Poverty Reduction

The pamphlets will be available in four languages, for a small fee to a wide audience, including NGOs, academics and the general public, and free of charge (including on the members' only section of the website) for any HIPC debt managers. If you have any suggestions for other publications or require more information, please contact Yolande Eyoum at DRI.

BRETTON WOODS HIPC TEAMS AGREE COMMON DSA TOOL

In April, the World Bank HIPC Unit decided to use DebtPro as its DSA tool for HIPC missions. This decision reflected the wish to standardise on the same tool as the IMF in order to facilitate bilateral discussions. It answers one of the questions put by HIPC Ministers in Geneva (see page 2) by clarifying that henceforth HIPCs will be able to work with both Bretton Woods Institutions using the same DebtPro tool. This will be good news for the 21 HIPCs which have now acquired Debt Pro. The latest release of Debt Pro (1999 release 6) has been made available to existing users on the IDM website (www.idm-debtpro.com) and contains many new features including implementation of HIPC II burden-sharing and the Cologne Terms, and a new more comprehensive on-line help facility. Release of Debt Pro 2000 is expected in the third quarter of 2000. BEAC will be organising a regional training workshop on DebtPro for Francophone HIPCs in the second half of 2000.

TECHNICAL QUESTIONS

1. How do rising world interest rates affect debt relief under HIPC?

Within the past year the interest rates of developed countries have risen, including the currency-specific Consensus Interest Reference Rates (CIRRs) used by the IMF and the World Bank as discount rates for calculating present value (see table). For example, the US$ CIRR rate has increased from 6% on average in January-June 1999 to 7.69% in June 2000. HIPCs might expect that with world interest rate costs rising, they might need more debt relief. But basing relief on present value means that the opposite is true. Higher interest rates mean higher discount rates and therefore a lower present value of future debt service payments. If the present value of a country's debt is lower, this means (other things being equal) that the ratios of PV/exports and PV/budget revenue will also be lower and hence a country's debt will be considered more sustainable. It also means a country will be entitled to less debt relief. If current high world interest rates continue, countries which have decision points in the future could face major reductions in their debt relief.

Nevertheless, for countries which had reached their decision points under HIPC I by July 1999, the IMF and World Bank Boards decided to fix the amount of relief on the basis of end-1998 data, including CIRRs and exchange rates. Therefore these countries will not have been affected by the rise in CIRRs and their relief will not decrease. In contrast, for most HIPCs, lower than expected growth rates of exports or budget revenue have reduced the denominators of the ratios and therefore made the debt less sustainable, offsetting the effect of the interest rate rises.

2. Why has the list of HIPC countries changed in the last year?

Since the start of the HIPC Initiative, two countries have fallen off the list of HIPCs (Equatorial Guinea and Nigeria) and one has been added (Malawi). One of the main criteria for being classified as a HIPC is IDA-only borrowing from the World Bank. Although its GDP per capita has in the 1990s become low enough for it to have IDA-only status, Nigeria has until recently had a policy of borrowing IBRD as well as IDA loans from the Bank, and therefore has been excluded from the list. On the other hand, Equatorial Guinea's per capita GDP has risen with the onset of oil production, so its GDP is considered to be too high for it to be a HIPC.

The reason for adding Malawi is somewhat different. At the start of the Initiative, Malawi has not had a concessional rescheduling from the Paris Club and was not thought to have debt ratios (after Naples Terms) which surpassed the HIPC eligibility thresholds. However, Malawi has made it clear that it wishes to have a concessional rescheduling and a preliminary DSA has indicated that it does exceed the HIPC thresholds – it has therefore entered the HIPC list. Other countries can potentially become HIPC if they are IDA-only, and have (or are prepared to have) a concessional rescheduling at the Paris Club – and will receive relief if they surpass the HIPC thresholds.

3. What is passive debt?

Passive debt was a concept originally invented by the Mauritanian government. After their participation in the Gulf War on the side of Iraq, most Arab creditors suspended relations and debt payments, and Mauritania reclassified this debt as passive because payments were not being demanded. At the time of the Mauritania HIPC DSA, a decision was taken to write to all creditors asking to know whether this passive status amounted to a real cancellation. Those countries which wrote back demanding payment were included in the DSA. Recently, some suggestion has been made that all debt which is in arrears and for which creditors do not actively demand payment when approached could be classified as "passive". However, in terms of loan contracts, the legality of this approach is not clear. For reasons of prudence, in case a creditor later decides to demand payment, it is necessary to include all debts in a DSA on which the creditor has not confirmed in writing that the debt has been cancelled.

CIRR* RATES FOR CALCULATING PRESENT VALUE, 1999-2000

	For countries that report data on :		
	Fiscal basis (July-June)[1]	Calendar basis (Jan.-Dec.)[2]	Fiscal basis (July-June)[3]
	Average of Jan-June 1999	**Average of July-Dec. 1999**	**Average of Jan.-June 2000**
Can. Dollar >8.5 years	6.02	6.67	7.22
Corean Won	9.20	9.85	10.56
Danish Krone	4.81	5.32	6.22
Japanese Yen	2.38	1.98	2.00
Norwegian Krone	6.02	6.64	7.20
Swedish Krona	4.77	5.80	6.45
Swiss Franc	3.74	4.27	4.96
UK Pound	5.67	6.70	7.08
US Dollar[4] >8.5 years	6.00	7.04	7.46
Euro[5]	4.60	5.47	6.16
SDR[6]	4.86	5.59	6.02

* CIRR: Commercial Interest Reference Rates.

Source : IMF, OECD 1999-2000

** CIRR DSA rates are calculated in June and December to reflect the fiscal and civil year and are used for debt data.

1/ Based on CIRR rates for the period (15/12/98 - 14/01/99) to (15/05/99 - 14/06/99) issued on 15 May 1999.

2/ Based on CIRR rates for the period (15/06/99 - 14/07/99) to (15/11/99 - 14/12/99) issued on 15 December 1999.

3/ Based on CIRR rates for the period (15/12/99 - 14/01/00) to (15/05/00 - 14/06/00) issued on 15 June 2000.

4/ The US$ rate is also used for the Chinese Yuan, the Iraqi Dinar, the Russian Ruble and IDB FSO local currency payments, if currencies/payments are linked to the dollar.

5/ Euro currencies: Austrian Schilling, Belgian Franc, Finnish Markaa, French Franc, German Mark, Irish Punt, Italian Lira, Neth. Guilder, Spanish Peseta.

6/ The SDR rate is used for all currencies not listed in the table, including the IDB and AfDB Units of Account and IBRD pooled currency loans.

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