

# HIPC DEBT STRATEGY

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



## Debt Relief International

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# THIRD HIPC MINISTERS MEETING IN PRAGUE

The 3rd meeting of the HIPC Ministerial Forum was held in Prague on 23 September at the beautiful Vinohrady National House. It was opened by Clare Short, British Minister for International Development, co-chaired by Ministers of Finance Gabriela Nuñez de Reyes of Honduras and Abdoulaye Bio-Tchané of Benin, and closed by Pascal Couchepin, Swiss Minister of Economic Affairs. Attendance rose to 21 HIPC Countries including 18 Ministers, again demonstrating the increasing attraction of the Forum as the sole meeting point for HIPC ministers to comment on the HIPC Initiative, Poverty Reduction and their capacity-building needs. A further 8 Ministers transmitted formal apologies due to the late running of other meetings or delayed arrival in Prague. The meeting was also attended by a wide range of G7 and like-minded donor officials, from Canada, Denmark, the Netherlands, Sweden, Switzerland and the UK, as well as several

## 1. Progress on Enhanced HIPC

- Ministers recognised the efforts of the Bretton Woods Institutions to accelerate decision points for a number of countries. However, they urged the international community and the BWIs to redouble their efforts to ensure that the target of decision points for 20 — and preferably considerably more than 20 — countries is met by the end of the year 2000. They emphasised that without increased flexibility on conditionality and more stress on the good poverty reduction records of some countries, this might not happen.
- Ministers urged the international community to ensure that countries are not subject to debt service “humps” (sudden increases) after their decision or completion points. They stressed that all creditors — but especially those owed the highest amount of service — must be prepared to share the burden of eliminating such humps.
- Ministers stressed that all countries — especially those emerging from conflict and natural

disasters and those subject to repeated external shocks (oil prices, export prices, etc.) — should have guaranteed access to sufficient financing for poverty reduction. They urged the international community to find new mechanisms for contingency and compensatory financing (on

- concessional terms) to protect HIPCs against shocks, as HIPCs cannot access either Contingency Credit Line (CCL) or Compensatory and Contingency Financing Facility (CCFF) funds.
- Ministers urged the BWIs to analyse the domestic debt burden in all DSAs in order to understand the complete fiscal burden of the debt — while not suggesting that domestic debt should be relieved through the HIPC Initiative.
  - Ministers endorsed the call by the G7 for all Paris Club bilateral creditors to follow them in committing to ODA debt cancellation which is additional to HIPC relief, and to guarantee to treat post-cut-off date non-ODA debt wherever necessary to reach sustainability thresholds.
  - Ministers strongly urged the US Congress to approve all remaining funding for US

contributions to the HIPC Initiative, which is now delaying contributions by donors and other Latin American countries, and the delivery relief for several Latin American HIPCs, and could have knock-on effects on financing for other multilaterals.

- Ministers urged extra efforts by all sides to accelerate and deepen debt relief from non-Paris Club governments. If such relief was not forthcoming, they suggested that HIPC calculations be reviewed to take account of the fact that relief was not being provided as foreseen.

## 2. New Financing and Poverty Reduction

- Ministers reiterated their determination to maintain macroeconomic stability and to pursue economic policy reforms, as well as accelerating their efforts on poverty reduction.
- Ministers expressed the need to ensure that resources allocated to debt relief are additional to resources previously committed for development aid.
- Ministers urged the need for maximum flexibility in the manner of providing debt relief, especially in the context of frequent external shocks to which HIPC countries are subjected.
- Ministers reminded industrialised countries that an even greater contribution to financing poverty reduction in HIPCs would be to eliminate trade barriers, allowing HIPCs themselves to earn the resources to eradicate poverty.
- Ministers underlined the need for additional aid flows and for long-term commitments of aid to support nationally-designed Poverty Reduction programmes which aim to reach the International Development Targets.
- Ministers urged the international community to avoid disappointing popular expectations raised in their countries by the HIPC/PRSP process, by ensuring that debt relief resources are heavily frontloaded and provided immediately at decision point.
- Ministers urged the international community to reduce sharply the number of conditions in PRGF programmes, especially for reaching the completion point, and to make an additional effort to concentrate on those conditions which are absolutely essential to poverty reduction rather than wider reforms.
- Ministers stressed the need for the BWIs to adjust the methods of measuring the fiscal deficit targeted in PRGF programmes to allow for maximum use of debt relief funds for additional poverty reduction spending.

# HIPC II: SHORT-TERM IMPETUS, LONG-TERM PROBLEMS

Since the last newsletter, due to the pressure of international civil society and the efforts of like-minded governments, HIPC II has moved faster than expected. After the disappointing G7 Summit in July, it looked as though the international community would be extremely lucky to get 20 countries through decision points by the end of 2000 (as promised in Okinawa and Cologne a year earlier had set a target of up to 24). Many decision points were delayed because the international community was insisting on adding multiple new poverty-related conditions to those already existing in adjustment programmes, and on excessively complex participation processes, before they would approve national Poverty Reduction Strategies.

However, in the third quarter of 2000, pressure led to a reaffirmed determination to move faster by Horst Kohler (new Managing Director of the IMF) and James Wolfensohn (President of the World Bank). This has translated into progress for some countries, with preliminary documents for Chad, Malawi, Rwanda and Zambia; HIPC II decision points for Benin, Cameroon, Honduras and Mali; confirmation that the Gambia is eligible for HIPC and will reach decision point in 2000; and (most recently) a decision to try to accelerate decision points originally slated for 2001 into 2000 — notably Ethiopia, Madagascar, Niger and São Tomé and Príncipe. This has dramatically increased the workload of HIPC governments, BWI staff and the CBP — something, which could have been avoided if acceleration had begun with the approval of HIPC II in 1999. Nevertheless, it will be hard to ensure 20 countries reach decision points by the end of 2000 — and almost impossible to meet the original target of 24.

In addition, some new short-term problems mean that countries are not receiving relief as originally intended by the G7 in Cologne:

- the **Paris Club** has failed to meet the undertakings of the G7 in Cologne. In July it was understood that non-aid debt cancellation (whether pre-cut-off or post-cut-off date) would be used to meet the HIPC sustainability ratios, and any action on aid debt would be additional, allowing countries to reduce their ratios considerably below HIPC thresholds. Yet for the first country to reach HIPC II completion point (Uganda), the Paris Club was unable to reach such a consensus, even after several months of debate, and allowed its creditor members to decide which debts they would cancel to reach the ratios. The Paris Club is currently reviewing this agreement: if not changed, it risks depriving many countries of large amounts of relief, and even preventing some countries with large amounts of post-cut-off date debt from reaching their HIPC sustainability thresholds.

- the **US Congress** has failed to fund administration commitments to pay for debt relief by Latin American regional institutions (notably IDB). Because IDB is an essential creditor, and without it the IMF cannot have guarantees that 70% of creditors have committed to HIPC relief, Honduras is not receiving interim relief under HIPC II. In addition, given that other creditors made commitments conditional on the US sharing the burden, this could have a knock-on negative effect on relief for many HIPCs. Congress has also failed to approve use of all proceeds of gold sales, leaving the IMF contribution to HIPC underfunded.
- many **non-Paris Club creditor governments** are continuing to refuse to provide sufficient relief. In view of the failure of the international community to secure such relief, HIPC Ministers suggested in Prague that the BWIs should drop from the HIPC analysis the assumption that they will, and set different targets for debt sustainability accordingly.

More important, there are several important long-term doubts about HIPC sustainability:

- Under pressure to reach decision points, there has been a dramatic variation in **content of I-PRSPs**, with some countries committing themselves to multiple conditions that might stop them reaching their completion points within 2-3 years. The more recent candidates have reduced numbers of conditions — but this means that countries with the best track records, which reached decision points early in 2000 (Bolivia, Mauritania, Mozambique, Tanzania and Uganda) will need their conditionalities to be reduced or interpreted very flexibly if they are to reach completion points as rapidly as they deserve, especially without being penalised by having debt relief delayed with their completion points. Few of the I-PRSPs have analysed fully the poverty impact of different macroeconomic frameworks and structural

conditionalities, or defined targets for reducing inequality, and these will need to be essential components of final PRSPs if poverty reduction is to occur.

- Though HIPC II has increased the focus on **frontloading debt relief** to reduce the debt service burden (especially the debt service/revenue ratio) from the decision point, this has been insufficient, allowing in some cases only marginal increases in spending on poverty reduction. Unless more is spent on poverty reduction up front, sustainable progress on poverty reduction - with knock-on effects on growth, will not be possible.
- Due to “humps” of increased debt service in the early years after HIPC debt relief, some countries will be able to spend less on poverty reduction than before unless relief is front-loaded. The IMF has just produced a Board Paper on this issue, but this analyses only a few countries and focuses excessively on comparing the amounts of debt service paid before HIPC with the amounts due after HIPC, rather than setting any objective benchmarks for debt service ratios to exports or to budget revenue, or for increasing spending on poverty. It is clear that all creditors should tailor debt relief more to reducing debt service ratios immediately after decision points, and to freeing maximum funds for poverty reduction, or poverty reduction will not be adequately financed. In addition, as recommended by Ministers in Prague, all HIPCs must be allowed to use the relief they receive from HIPC to spend on poverty reduction rather than reducing budget deficits, restructuring financial sectors or repaying government debt to banking systems.
- Under HIPC I, five of six countries saw exports or budget revenue at completion point fall short of projections made at decision point. HIPC II continues to make no provision for the frequent negative shocks suffered by HIPC economies, which may well

Press conference in Prague, from the left: Finance Ministers from Uganda, Zambia, Malawi, Rwanda, DRI Director, Finance Ministers from Benin and Honduras, DRI Programme Co-ordinator



World Bank Executive Directors' offices, and DRI's partner organisations. The meeting was followed by a press conference in which 6 HIPC Ministers answered questions from international journalists and NGOs.

Ministers urged that the Forum should henceforward meet twice a year, once at the Annual Meetings of the IMF and World Bank, and be supported by a technical network of senior officials. They reaffirmed their declaration issued in Geneva in June, and issued a declaration on “The Need To Reinforce The Enhanced HIPC Initiative”, covering 2 areas:

## HIPC II: SHORT-TERM IMPETUS, LONG-TERM PROBLEMS cont.

make debt unsustainable again in the medium-term, and (as HIPC Ministers indicated in Prague) the focus must switch to establishing adequate anti-shock compensatory funding for HIPCs.

- No account is being taken in HIPC debt sustainability analyses of the total (external and domestic) debt burden, implying that relieving external debt may not free funds for spending on poverty reduction if domestic debt service burdens remain high.
- Insufficient attention is being paid to *post-HIPC development financing*, with IMF programmes setting somewhat different limits on non-concessional borrowing, and several G7 countries continuing to lend (even non-concessional) to HIPCs during a period when they are getting relief from other creditors. Many donors are failing to co-ordinate their

support behind country-led PRSPs, and are continuing to insist on micro-conditions or funding of individual projects rather than switching to budget support. In addition, donors are not increasing aid flows fast enough to fund long-term poverty reduction in HIPC countries - resulting in PRGF objectives which will leave some countries well short of the International Development Targets. Moreover, little analysis is being conducted of how private sector capital (foreign and domestic) can contribute more to poverty reduction.

- In sum, we have little idea of whether HIPCs will reach the International Development Targets, or how much supporting funding will be needed. The international community must fill this analytical gap urgently, or face the risk that few HIPCs will reach the IDTs.

## BWIs ISSUE NEW GUIDELINES ON DEBT MANAGEMENT

In August 2000, the BWIs issued to their Boards a paper entitled "Draft Guidelines for Public Debt Management". Based on feedback from HIPCs, this excellent paper is somewhat inconsistent with the HIPC initiative and may not accord with priorities for low-income capacity-constrained countries:

- it encourages countries to monitor and manage all their assets and liabilities comprehensively, which the HIPC Initiative could usefully follow.
- it does not provide sufficient details on levels of indicators of "external vulnerability" in individual countries, and its indicators are largely inconsistent with those examined under HIPC. It also fails to discuss adequately "Fiscal Vulnerability", even though these have been recognised in the HIPC Initiative as key indicators of debt problems.
- in general, it provides insufficient indication of

how countries should apply the guidelines - not identifying which should be priority areas in countries with limited staff capacity.

- it emphasises comprehensive "stress tests" and contingency measures to protect against shocks which can undermine sustainability, but HIPC II does not tackle this adequately.

HIPCs have also expressed a need for more comprehensive process of consultation, especially with low-income countries, so that guidelines are adapted to country circumstances and views, and for the BWIs to include in the paper a discussion of the capacity-building assistance available to countries to attempt to meet these guidelines. DRI will be conducting in the rest of 2000 a process of consultation on these guidelines through its various regional events, and feeding the results back to the BWIs to ensure they reflect the priorities of its low-income clients.

## CEMLA-DRI SEMINAR: FINANCING GROWTH AND SUSTAINABLE DEVELOPMENT IN LATIN AMERICA

**C**EMLA was the host of this international seminar jointly organised with DRI on 7 and 8 September in Mexico City. The excellent facilities of CEMLA held more than 30 participants from 14 different countries of the region and representatives of CEPAL, Andean Development Corporation (CAF), the Bank of England and SBC Warburg.

The objective of the seminar was to explore in detail, the link between the financing of economic growth and sustainable development in the region; the macroeconomic effects of different types of financing and their limitations, appropriate public policies to attract and manage the macro impact of different types of financing; and the need for more information and analysis, as well as the strengthening of capacities in the management of these issues in the region.

Senior international practitioners and policy makers from the international community contributed to the seminar with their expertise and representatives of member countries of CEMLA brought their own perspectives into the discussion that followed. Senior level representatives from both central banks and ministries of finance from CEMLA member states attended the event.

### Day 1 looked at the financing of growth and development, with sessions on:

- International capital markets: bonds, stock markets, FDI, introduced by Spencer Jones, SBC Warburg;
- Official capital flows: conditionality and concessionality, introduced by Valeriano Garcia, Executive Director at the World Bank
- External debt relief and debt sustainability, introduced by Matthew Martin, Director of DRI
- Domestic debt and capital markets, introduced by Simon Gray, Bank of England

### Day 2 assessed in detail policies attracting financing for sustainable development, including:

- Macro perspective: fiscal, monetary and external sector policies introduced by Ariel Banda, former General Manager of the Central Bank of Uruguay
- Financial perspective: savings, investment and financial sector policies, introduced by Carlos Budnevich, Central Bank of Chile;



- Poverty reduction and growth policies from an institutional perspective, introduced by Javier Comboni, former Principal Economic Advisor, Central Bank of Bolivia; and
- Capacity Building Needs in the region, introduced by Luis Giorgio, Executive Director of CEMLA and Juan Carlos Aguilar, Programme Co-ordinator of DRI

The main presentations and supporting papers for each session will be published shortly on both organisations' websites: [www.dri.org.uk](http://www.dri.org.uk) and [www.cemla.org](http://www.cemla.org)

# HIPC INITIATIVE COUNTRY PROGRESS AND PRSP STATUS (OCT 2000)

Country	HIPC Initiative Progress				PRSP Status (I=Interim)	
Countries which have already reached decision/completion points under HIPC I						
	HIPC I		HIPC II		Explanation	
	Decision	Completion	Decision	Completion		
Benin	7/97	ineligible	7/00	2001-2	Boards approved DP in July 2000	preparing full PRSP
Bolivia	7/97	7/98	1/00	2001	complex PRSP consultations delayed the CP to early 2001	preparing full PRSP
Burkina Faso	9/97	6/00	6/00	2001-2	2nd CP linked to PRSP implementation and conditionalities	full PRSP being implemented
Cote d'Ivoire	3/98	9/00	2001	2001-2	political instability and track record problems might delay DP	preparing I-PRSP for 2nd DP
Guyana	12/97	6/99	Q4/00	2001-2	back on track for 2nd DP before end-2000	preparing I-PRSP for 2nd DP
Mali	9/98	9/00	9/00	2001-2	Boards approved CP and 2nd DP in September 2000	preparing full PRSP
Mozambique	6/98	6/99	4/00	2001-2	finalisation of full PRSP requires 6 more months	preparing full PRSP
Senegal	7/97	ineligible	6/00	2001-2	Boards approved DP in June 2000	preparing full PRSP
Uganda	4/97	4/98	2/00	4/00	difficulties at the Paris Club to obtain all bilateral debt relief entitled	full PRSP being implemented
Countries which have reached or are expecting to reach decision points under HIPCII						
	Preliminary HIPC Documents	HIPCII		Explanation		
		Decision	Completion			
Angola	no current timetable			preliminary DSA shows ratios under HIPC thresholds	no PRSP process	
Burundi	2001	2001-2		negotiations for an emergency post-conflict credit with IMF	PRSP process will follow	
Cameroon	6/00	10/00	2001-2	Boards approved DP in mid-October	preparing full PRSP	
Central African Rep.	2001	2001-2		programme discussions will resume in October 2000	preparing I-PRSP for DP	
Chad	7/00	4Q/00	2001-2	DSA being finalised for presentation to Boards by end-2000	finalising I-PRSP for DP	
Congo Dem. Rep. of	2001-2	2001-2		need to negotiate post-conflict assistance with IMF	no PRSP process	
Congo Rep. of	2001	2001	2002-3	discussions on post-conflict emergency assistance completed	preparing I-PRSP for 2001	
Equatorial Guinea	no current timetable			GDP rise means graduation from HIPC list	no PRSP process so far	
Ethiopia	1998	2000-1	2002-3	IMF mission in the field completing DSA for DP in early 2001	preparing I-PRSP for DP	
Gambia	11/00	2000	2001-2	DSA being finalised for presentation to Boards by end-2000	finalising I-PRSP for DP	
Ghana	no current timetable			Government to take a final decision on HIPC in early 2001	I-PRSP approved by BWIs	
Guinea	12/99	4Q/00	2001-2	IMF mission in the field completing DSA and PRGF review	finalising I-PRSP for DP in 2000	
Guinea Bissau		4Q/00	2001-2	PRGF & DSA ready, awaiting solution for multilateral arrears	finalising I-PRSP for DP in 2000	
Honduras	12/99	7/00	2001-2	lack of solution to IADB financing delaying interim relief	preparing full PRSP	
Kenya	no current timetable			preliminary DSA shows ratios under HIPC thresholds	preparing full PRSP	
Lao PDR	no current timetable			government analysing a decision on HIPC	preparing I-PRSP	
Liberia	no current timetable			no current IMF programme	no PRSP process	
Madagascar	2001-2	2001-2	2002-3	PRGF negotiations begin in 11/2000 for DP in early 2001	finalising I-PRSP for DP early 2001	
Malawi	8/00	4Q/00	2001-2	finalising floating CP conditions for HIPC	I-PRSP ready for DP in 2000	
Mauritania	1/99	1/00	2001-2	implementing floating CP conditions for HIPC	preparing full PRSP during 2000	
Myanmar	no current timetable			no IMF programme since 1981-82, no WB lending since 1987	no PRSP process	
Nicaragua	10/99	4Q/00	2001-2	2nd annual PRGF review could be in 10/2000 allowing a DP	I-PRSP ready for DP in 2000	
Niger	4Q/00	2000-1	2002-3	IMF mission finalised PRGF and HIPC DSA in 9/2000	I-PRSP ready for DP in early 2001	
Nigeria	no current timetable			dropped from HIPC list but now IDA only	no PRSP process	
Rwanda	1/99	4Q/00	2001-2	joint IMF/WB finalising PRGF and HIPC DSA in 10/2000	I-PRSP ready in November for DP	
St. Tom & Prncipe	2000	2000-1	2002-3	PRGF 1st year review in Q4/00 may allow DP by end-2000	I-PRSP approved for DP	
Sierra Leone	2001	2001		3-year PRGF to be considered in early 2001 together with I-PRSP	preparing I-PRSP	
Somalia	no current timetable			no current IMF programme	no PRSP process	
Sudan	no current timetable			no current IMF programme	no PRSP process	
Tanzania	9/99	4/00	2001-2	implementing floating CP conditions for HIPC	preparing full PRSP	
Togo	2001-2	2001-2		no IMF programme since 1998	initiating preparation of I-PRSP	
Vietnam	no current timetable			preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP	
Yemen	no current timetable			preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP	
Zambia	8/00	4Q/00	2001-2	IMF mission in 10/2000 to review PRGF and define DP for 2000	finalising I-PRSP	

Source: DRI & IMF documents

# DEBT RELIEF AND POVERTY

# REDUCTION SEMINAR London, 2-6 October

**The Enhanced HIPC Initiative has specified a more explicit link between debt relief and poverty reduction, under which countries have now to prepare and present to the BWIs a Poverty Reduction Strategy Paper (PRSP) in order to qualify for HIPC debt relief. These PRSPs are to be designed with the participation of all civil society groups.**

As a result, and in response to demand from HIPC Governments, the HIPC CBP organised an international seminar on the links between debt relief and poverty reduction, in London from 2 to 6 October. It attracted 69 participants from 22 HIPCs, the CBP donors, the IMF, World Bank and UNDP, NGOs, academia (IDS-Sussex, CSAE-Oxford and ODI-London) and independent consultants, all experts in these issues. It was opened by the UK International Development Minister, Clare Short.

The HIPC CBP has for 3 years been responding to HIPC requests by training on poverty reduction strategy programming, particularly on strategic principles and the costing and budgeting of poverty reduction expenditures to be financed by debt relief savings. HIPCs have commended this support as an important contribution to their poverty reduction strategies, but the CBP has always made clear that the knowledge of international best practices in poverty reduction is spread across many specialised personnel in international, non-government, academia and private sector organisations in developed and developing countries. HIPCs felt that, given its independent position and close links with HIPC policymakers, DRI was uniquely placed to bring together these groups, and particularly to facilitate an exchange of experience and expertise among HIPCs, as it has already done in organising missions where HIPCs assist their fellow countries to design poverty reduction strategies. The fundamental aim of the seminar was therefore to provide HIPCs with access to a wide range of expertise, particularly from other HIPC countries.

The 5-day seminar contained sessions on best practices in the areas discussed below. Following presentations by HIPC and international experts

on these best practices, and extensive floor discussions, countries discussed their findings and conclusions in working groups, and designed their own poverty reduction capacity-building matrices to identify their priority needs for capacity-building.

The seminar reached the following conclusions:

- **Poverty Reduction and Macroeconomic Policy Linkages**  
All macro reforms must be analysed for their poverty impact. PRSPs need to accelerate growth compared to ESAF programmes, and not to focus excessively on macro balances. Countries that have reached a degree of stabilisation (single-digit inflation, low budget deficits) need maximum flexibility in being allowed to spend all HIPC savings on poverty reduction. Mechanisms must be put in place to protect countries (and therefore poverty reduction expenditures) against external shocks, including access to industrialised country markets. Regional economic convergence targets must also be made more flexible to accommodate poverty reduction expenditures.
- **Poverty Reduction and Structural Reforms**  
Much more account must be taken of the distributional impact of privatisation (employment effects, access of the poor to services), agricultural policy (land reform, smallholder services), civil service reform (employment and wage levels), financial sector reform (growth-oriented lending and micro-credit), private sector policies (small enterprise promotion), and industrial sector policy (labour-intensity and employment regulations).
- **Equity and Distributional Issues**  
PRSPs should explicitly analyse income distribution and equity issues, going beyond income to other inequity (gender, regional); should analyse sources of inequity from sectoral policies (e.g. agriculture); and should conduct comprehensive forecasts of the impact of poverty reduction strategies on equity through models.
- **Methods of Poverty Diagnosis and Assessment**  
Countries need to draw on the maximum number of sources to establish a baseline

data set, including more quantitative Living Standards Surveys and Poverty Mapping, more qualitative Participatory Assessments and Welfare Questionnaires, and timely sample surveys. They also need to use results properly, by integrating and cross-checking the different results, focussing on a limited number of core disaggregated indicators, and to monitor the impact of policies and their execution through democratic community-based structures.

- **Designing a Long-Term Poverty Reduction Strategy**  
PRSPs need explicitly to make their short-term targets consistent with forecasts of long-term progress to reaching the IDTs in 2015, using models and simulations. They also need to integrate environmental sustainability – especially in view of its close links to poverty reduction and agricultural sector reforms.
- **Budgeting and Costing Anti-Poverty Expenditures**  
Medium-Term Expenditure Frameworks are a desirable basis for poverty reduction budgeting, but they need to move firmly away from line-item budgets in all ministries, ensure integration of the recurrent and investment budgets, be more decentralised and clearly identify poverty reduction expenditures. Public Expenditure Reviews can be a useful background tool.
- **Designing Comprehensive Programmes**  
Programmes need to be the core of the national development strategy. They must be as comprehensive as possible in their coverage of sectors and sub-sectors linked to poverty reduction; to broaden definitions particularly well beyond primary education and basic health, to issues such as rural development, water and sanitation, electrification, roads, employment creation and protecting vulnerable groups, as well as specific gender, child welfare, population and HIV/AIDS programmes. They need to focus on quality of services rather than simple quantity.
- **Governance, Institutions and Empowerment of the Poor**  
Programmes need to define much more precisely their governance objectives and link



them more clearly to those which are essential to poverty reduction, particularly the empowerment of the poor, rather than political conditions. They stressed the need for central government to be extremely well organised – with co-ordination of all central ministries and agencies, sufficient resourcing and maximum capacity-building support, clear leadership from integrated planning and budget functions, and excellent communication between policymakers and technicians. They also underlined that successful PRSPs would require continuity at the technical level in spite of changes of government.

- **Participatory Poverty Diagnosis and Strategy Design**  
Participation processes remain fragile, and need to be fully integrated into existing democratic institutions and more tailored to the circumstances of each country. It is vital to ensure that civil society organisations are fully representative of government and opposition and, wherever possible, to access the voice of the poor directly. Governments need to avoid excessive public expectations and to involve the media fully.
- **Participatory Spending, Implementation and Review Mechanisms**  
Budgets need to be more publicly transparent and subject to permanent public discussion. Local governments need more robust, accountable and transparent expenditure systems. Participatory processes need to be financed on a sustainable basis to

ensure that long-term implementation and review is possible.

- **External Financing: Debt Relief, Aid and Private Flows**  
There is a need for a dramatic increase in the amounts and frontloading of all types of external finance: HIPC debt relief is not enough. Donor co-ordination must be increased. Aid should come increasingly in the form of programme or sector support to ensure rapid disbursement, and all aid should be integrated into the budget to end off-budget disbursements. It is vital to end aid untying and allow procurement from other HIPC countries. Multilateral institutions should provide grants rather than loans wherever possible. All sides need to focus more on designing projects which reduce poverty fast. Old projects should be reviewed and where necessary cancelled especially if they have little poverty focus. Donors should agree common accounting and procurement regulations and joint evaluation missions, meetings and indicators. Recipient countries should establish a forum to monitor donor practices to ensure best practice is generalised and recipients are treated consistently. Much more monitoring and analysis is needed to assess the role of external private capital in poverty reduction.
- **Domestic Financing: Central and Local Governments and the Private Sector**  
Tax reforms need to be accelerated, with increased emphasis on widening the base to

include the informal sector, given that there is no easy solution to tax administration problems. They should have far more equity focus supported by tax incidence analysis. Local decentralised revenue-raising is paramount. Microcredit programmes must be far higher priority, moving from policy guidelines to action. Private sector and NGO financing contributions to poverty reduction should be integrated into government analysis, including private sector training levies. Tax exemptions (e.g. for donors and NGOs) need to be re-examined.

- **HIPC Capacity-Building Needs**  
All HIPCs present expressed needs for wide-ranging support in all of the above areas, while also identifying many areas in which they could help one another. They were informed of the wide range of assistance available from the international community through multilateral organisations, NGOs, academics and independent private consultants, and provided with the contacts of such organisations. They also asked the CBP to continue to link all of these different partners and especially to sponsor inter-HIPC assistance. Finally, the seminar agreed to create a network of poverty reduction officials and urged Debt Relief International to be proactive in co-ordinating information flows among them on the latest developments in international best practices.

# CBP ACTIVITIES FROM JULY 2000 TO MARCH 2001

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 July and June September, the CBP continued to organise numerous missions, regional and national training events, international seminars and policy-maker meetings.

- **Demand Assessment Missions to Equatorial Guinea and Côte d'Ivoire** under the leadership of the BEAC/BCEAO Regional Debt Management Training Unit. The first mission resulted in an urgent request for capacity-building training that will be provided directly through the Regional Training Unit since Equatorial Guinea has been dropped from the list of HIPCs in light of its increased GDP.
- **The Gambia Debt Strategy Workshop** took place in Banjul, from 27 June to 6 July, and attracted 35 participants from the Finance Ministry, Central Bank and agencies in charge of Poverty Reduction. The national team confirmed that the Gambia will be eligible for the HIPC Initiative and produced a debt strategy report analysing the implications of eligibility, and identified areas that need further reinforcing of capacity. The workshop was organised jointly with WAIFEM, and was well timed, allowing the government to be prepared for HIPC negotiations.
- **The Guinea Bissau Debt Strategy Workshop** was held from 7 to 16 August in Bissau, and was attended by 33 participants from key government agencies and (at government request) NGO representatives, who were trained in debt sustainability analysis and poverty reduction programming. They produced a Debt Strategy report that was presented to high level policy-makers and donors at the Closing Ceremony. The debt strategy report served also as a basis for further HIPC negotiations with the international community in Prague.
- **The Chad Debt Strategy Workshop** jointly organised with BEAC was held from 28 August to 6 September in N'Djamena, and was attended by 31 participants from relevant government agencies. They produced an analysis that confirmed their eligibility for the HIPC Initiative and was integrated into the Debt Strategy report that was presented to high level policy-makers at the closing day through an Awareness Seminar.
- **The Niger Debt Strategy Workshop** was held from 8 to 16 September in Niamey, and was attended by 30 participants from essential government agencies, and a resource person from UEMOA. Participants refreshed their knowledge of debt sustainability issues and poverty reduction programme design. They produced a Debt Strategy report that was presented to the Finance Minister and the Foreign Affairs Minister among other high level policy-makers and donors at an Awareness Seminar.
- **Follow-up Missions for Guinea-Bissau and São Tomé and Príncipe** were organised to help both country's technical teams with their final HIPC negotiations with the Bretton Woods Institutions and the international community at the time of the Annual Meetings from 22 to 27 September.
- **Follow-up Missions for Benin and Mali in the area of Poverty Reduction Participatory Design and Programming** were organised at their request, in order to help them understand and learn from the Burkina Faso experience in preparing and negotiating a full PRSP with the international community. A number of practical recommendations were made on how to enhance the process by integrating macroeconomic frameworks into PRSPs and better co-ordinating donors and popular participation
- **The Senior Seminar on Financing Growth and Sustainable Development in Latin America** took place in Mexico City, Mexico on 7 and 8 September (see page 5).
- **Consultations with International Financial Institutions** on the CBP progress and scope for co-ordination continued at the IMF/WB Annual Meetings between 23 to 27 September in Prague.
- **The 3rd HIPC Ministerial Meeting** was organised in Prague, on September 23, and was attended by senior representatives of 21 HIPCs (see article on page 2)
- We have continued to provide comprehensive capacity building training in debt strategy through **capacity-building advisors** in Honduras, Nicaragua and Guyana. The long term advisory support for São Tomé and Príncipe and Guinea-Bissau ended with the Guinea-Bissau National Workshop.
- Progress continued in **the transfer of the CBP to regional institutions**. The CBP is implementing the signed transfer agreement with MEFMI for 2000-2001 and preparing a number of events for end-2000. The transfer to the BEAC/BCEAO Regional Debt Management Training Unit in Francophone Africa has accelerated by organising 6 joint events and preparing 2 more before the end of 2000. Details of the transfer to WAIFEM in Anglophone West Africa are being finalised. Finally, the CEMLA Board approved on September 23 the transfer programme for Latin America and a Memorandum of Understanding will be signed shortly. Discussions and joint meetings were held with almost all regional partners in Prague.

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

- **6 Demand Assessment Missions** to Rwanda (October 2000) and Burundi, Madagascar, Liberia, Vietnam and Lao in early 2001;
- **7 National Workshops** in São Tomé and Príncipe (end-October 2000), Zambia (October 2000 with MEFMI) and Angola, Malawi, Rwanda, Senegal, and Central African Republic (in early 2001 with MEFMI and the BEAC/BCEAO Debt Management Training Unit);
- **4 Follow up Missions** to Burkina Faso, Guinea and Togo (with the BEAC/BCEAO Debt Management Training Unit) and Bolivia (with CEMLA);
- **2 Debt Negotiations Regional Workshops** in Africa, one for Anglophone (6-11 November in Banjul) and another one for Francophone HIPCs (13-18 November in Dakar);
- **2 Macro Forecasting Regional Workshops**, one for Francophone African HIPCs (the first will be held from 11-20 December, co-organised with the BEAC/BCEAO Debt Management Training Unit) and the second for Latin America (for 1Q2001 co-organised with CEMLA);
- **2 Domestic Debt Strategy Workshops**, for the WAIFEM region and one for the African Francophone region.
- **the 7th HIPC CBP Steering Committee Meeting** on 30 November in Vienna, Austria.

# DRI LAUNCHES ITS WEBSITE

Following increased demands for more detailed information from HIPC Debt Managers, and from the international community in general, DRI is launching a new source of information on the World Wide Web. You can now reach the English version of the DRI website at the following domain: <http://www.dri.org.uk>



The French version of the website will be online as of mid December 2000, followed closely by the Spanish and Portuguese versions by the end of the month.

The site is divided into public and private "Members Only" sections in order to provide maximum benefit and more detailed, confidential information to HIPC Debt Managers. Restricted access to the Members Only section of the site is therefore limited to HIPC Debt Managers, the Programme's Donors and Regional Partner Organisations via a username and password system. In order to gain access to the private site, you must first register by accessing the DRI site at the above address, and complete the online registration form. If applicable, you will be sent your personal username and password by email.

The content included on the public web pages, includes the following general information:

- Background information on the HIPC Capacity Building Programme, Debt Relief International, Development Finance International (its parent organisation) and its employees;
- HIPC CBP Ministerial Network, including the Minutes and /or Declarations from the meetings of HIPC Ministers in Copenhagen, Geneva and Prague;
- Details regarding DRI's publications for the year 2000 which are now available to the general public for the first time;
- Newsletters published to date;

- Comprehensive listing of all projects, missions and events organised by Debt Relief International and Development Finance International;
- Useful links pages to the HIPC CBP Programme Donors, international and regional financial institutions, academic and developmental organisations connected to the work of the HIPC CBP.

The Members' Only part of the site includes the following:

- DRI's bi-annual comprehensive work programme, listing all forthcoming projects;
- HIPC country profiles, including the key technical contacts in each country (debt relief, new financing, macroeconomic forecasting and poverty reduction); country and PRSP status under the HIPC Initiative. In the not too distant future we will also be including key country data and documents, for example, national debt strategies, PRSPs and capacity building plans on these pages;
- Existing and revised DRI publications for the year are available to download for free to HIPC Debt Managers. As and when further publications are produced, these will also be available on the site;
- HIPC Contact List providing key contacts of HIPC Government Officials, searchable by technical area or by country;
- Steering Committee Proceedings will also become available to view, providing detailed insight into how the HIPC CBP is executed.

Building this new information source is an on-going process and we will be continuously updating and expanding the services and information

on the site. In the coming months Members will also be able to download the latest versions of DRI training materials in English, French, Spanish and Portuguese. These documents will include material not only from national or regional debt strategy and analysis workshops, but also from our more detailed, technical events, covering topics such as debt negotiations, domestic debt analysis, macroeconomic forecasting and poverty reduction. Included in these more specialised pages will be technical data (or direct links to appropriate web pages of other organisations or government bodies) such as summaries of the best terms HIPCs can get in renegotiating debt with all creditors, as well as international terms on new official and commercial borrowings; the latest CIRR discount rates and global macroeconomic forecasts.

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

## NEW OFFICE FOR THE HIPC CBP

The HIPC CBP Technical Office, Debt Relief International, has moved.

Our address and contact numbers have changed since 28th October 2000. Please contact us at:  
4th Floor, Lector Court,  
151-153 Farringdon Road,  
London EC1R 3AF  
U.K.

Telephone: +44 (0)20 7278 0022  
Fax: +44 (0)20 7278 8622

Our e-mail remains the same until further notice.

# TECHNICAL QUESTIONS

## 1. How are re-exports treated when calculating sustainability ratios?

Earlier this year, the Bretton Woods Institutions agreed to exclude estimates of *transits and reexport trade* from the computation of exports of goods and non-factor services because "reexport does not involve a change in ownership vis-à-vis residents" and therefore "this trade should not be recorded in balance of payments statistics, as set out in the Balance of Payments Manual (5th Edition)". This also means that reexports should be excluded from imports as well as exports. However while agreeing to exclude reexports from the calculation of exports and imports, the Bretton Woods Institutions have insisted that the service related costs of the reexport trade, such as transport and insurance, provided by local businesses plus an estimate of their profits must be included in the calculation of nonfactor service receipts. In the case of The Gambia, these receipts were estimated to be equivalent to 21.75% of reexport trade. Nevertheless, the basis for such estimates needs to be thoroughly investigated before its inclusion in the calculation of exports.

## 2. Are debt cancellations by OECD bilateral creditors really "additional" to HIPC relief or part of it?

The G7 creditors originally announced the cancellation of ODA debt at their meeting in Cologne in 1999 and it was promised as being "additional" to HIPC relief. That is, it is not to be included as part of a creditor's burden sharing under the Paris Club, instead it is to be provided on top of the Cologne Terms. In the 23 July 1999 document entitled "Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative", the BWIs state on page 22 that the "G-7 leaders have called for additional action on a bilateral basis on top of the HIPC Initiative assistance, namely to forgive all ODA debt for HIPCs qualifying for assistance under the Initiative".

However, this concept of additionality was overturned last month at Uganda's Paris Club meeting when some creditors argued and won the case for having debt cancellation included as part of the debt relief to be provided by the Paris Club. This is a very worrying development and HIPC governments need to take note and argue vehemently against such an inclusion and to insist that the Ugandan case should not be used as a precedent. There has also been considerable discussion in the past year on exactly which debts bilateral

creditors are to forgive. The table below sets out the latest information on cancellations additional to HIPC.

## 3. How does a country decide in which year to have its Decision Point?

For most HIPCs, the key issue is getting to the Decision Point as quickly as possible in order to start receiving relief. However, for some countries, particularly those set to have their Decision Point towards the end of one calendar year or the beginning of the next year, the choice of the Decision Point year can have an effect on the amount of debt relief to be received.

Since the sustainability ratios are based on the debt, export and revenue data of the year-end before the Decision Point, it is important to assess the changes in these variables. So, for example, has there been substantial new borrowing in 2000 resulting in a significantly higher PV at end-2000 (Decision Point in 2001) than at end-1999 (Decision Point in 2000)? Alternatively, does a fall, or rise, in exports within the year make a significant difference to the PV/exports ratio and hence debt relief? Has there been a large devaluation during the year that will mean a higher PV/revenue ratio and potentially more debt relief?

## PARIS CLUB DEBT RELIEF ADDITIONAL TO HIPC

Creditor country	Countries covered	Debt Relief Additional to the HIPC Initiative				Method of delivery	
		ODA		Non-ODA			
		pre-cut-off date	post-cut-off date	pre-cut-off date	post-cut-off date	Decision Point	Completion Point
Australia*	HIPCs	100%	100%	100%	100%	to be finalised	to be finalised
Austria**	HIPCs	100% (case-by-case)	100% (case-by-case)	100% (case-by-case)	-	case-by-case	case-by-case
Belgium	HIPCs	100% (case-by-case)	100% (case-by-case)	case-by-case	-	flow	stock
Canada***	HIPCs	100% already cancelled	100% already cancelled	100%	100%	-	stock
Denmark	HIPCs	100%	case-by-case	-	-	-	stock
Finland	HIPCs	95%	98%	-	-	-	-
France	HIPCs	100%	100%	100%	-	-	stock
Germany	HIPCs	100%	100%	100%	-	100% flow	stock
Italy	HIPCs	100%	100%	100%	-	-	stock
Japan	HIPCs	100%	100%	100%	-	-	stock
Netherlands****	HIPCs	100%	100%	100%	-	90-100% flow	stock
Norway	HIPCs	100% already cancelled	100% already cancelled	100%	100%	100% flow	stock
Russia	case-by-case	-	-	-	-	-	stock
Spain	HIPCs	100%	case-by-case	case-by-case	case-by-case	-	stock
Sweden	case-by-case	-	-	100% (case-by-case)	-	-	stock
Switzerland	to be decided						
UK*****	HIPCs	100%	100%	100%	100%	100% flow	stock
US*****	HIPCs	100%	100%	100%	100%	100% flow	stock

\* For post-cut-off non-ODA, relief to be applied to debt incurred prior to date to be decided. Timing details for flow and stock relief to be finalised.

\*\* Countries covered on case-by-case basis

\*\*\*Countries = HIPCs + Bangladesh, 100% ODA debt already cancelled, except for Myanmar.

\*\*\*\* 100% pre- and post-cut-off date ODA will be cancelled at the Decision Point. Non-ODA: 100% cancellation of consolidated flows at Decision Point for Bolivia, Burkina Faso, Ethiopia, Mali, Nicaragua and Tanzania: 90% for all other HIPCs. At Completion Point, 100% cancellation of remaining pre-cut-off debt.

\*\*\*\*\*For post-cut-off non-ODA, 100% cancellation of debt as of 01/01/2000. For provision of relief at Decision Point, it is conditional up to Completion Point.

\*\*\*\*\* For post-cut-off non-ODA, 100% cancellation on debt as of 20/06/1999 (date of Cologne Summit).

## Debt Relief International's new office contacts

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