HIPC DEBT STRATEGY

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and Analysis Capacity Building Programme

Debt Relief International

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POVERTY REDUCTION AGENDA

In 2001, progress on HIPC has slowed considerably compared to the hectic pace of 2000. This is partly because most realise that reaching the 2015 poverty reduction targets will require much more than just debt relief.

HIPC Initiative Progress

New analysis by the Bretton Woods Institutions indicates the large scale of relief provided under HIPC. The 22 countries which reached their decision points by the end of 2000 will receive US$20.3 billion of PV debt relief from HIPC, or around a US$34 billion reduction if assistance from traditional debt relief measures and additional pledges of cancellation by creditor governments (US$4.3 billion) are included. The other 10 countries which have not received relief yet could be eligible for as much as US$10 billion from HIPC and US$29 billion in total. Nominal debt service relief is roughly US$34 billion from HIPC relief for the 22 countries, or US$53 billion including non-HIPC relief.

Forthcoming countries could receive US$17 billion from HIPC and US$41 billion in total. Both PV to export and debt service to export ratios will be halved when averaged across the HIPCs. Nevertheless, average debt service/revenue ratios will fall below 10% only in 2005 and, as discussed in our last edition, humps of debt service above the 13% ratio identified by DRI as being sustainable will exist for a number of HIPCs during the next few years.

HIPC and the renewed focus by HIPC and donor governments on poverty reduction are also provoking a considerable increase in poverty-oriented expenditures, from 5.8 to 7% of GDP across the 22 countries (though this hides a picture varying from 3% to 22% of GDP for individual countries). Countries are accelerating efforts to track expenditure, in cooperation with civil society, to ensure that it reaches the poor and has the desired impact on poverty reduction.[1] Yet such spending efforts will need to be dramatically accelerated in some countries, and complemented by additional donor programme aid to make them possible, if they are to halve their poverty levels by 2015. Debt relief alone cannot provide sufficient financial resources to reach the 2015 targets.

No new country reached either decision or completion points in the first quarter of 2001. This was partly because many of the remaining 19 countries are engaged in or have recently ended internal or cross-border conflicts, and partly because the pressure by some G7 governments and civil society (in the North and South) to get 20 countries to decision points by the end of 2000 was relaxed in 2001. As can be seen from the table on pages 6-7, Chad is expected to have a decision point during this quarter, Ethiopia in the next quarter, and Central African Republic and Sierra Leone by the end of 2001. However, Burundi, the two Congos, Myanmar, Somalia, Sudan and Togo could be delayed into 2002 and beyond, due to internal and/or cross border conflicts.

Another country due for a decision point soon is Ghana. The new Ghanaian government of President Kufour took a courageous decision to apply for HIPC relief, overcoming earlier concerns that this would damage access to international capital markets and reduce Japanese aid flows. It could receive around US$2.1 billion of debt relief, which could translate into as much as US$200 million a year in savings for the budget to spend on poverty reduction, and on bringing down the fiscal deficit and the level of domestic debt, which will benefit the private sector by restoring macroeconomic stability.[2]

In addition, a few other IDA-only countries, for example, Comoros and Eritrea, have begun to appear on the HIPC radar screen as potential new beneficiaries. On the other hand, Angola, Kenya, Vietnam and Yemen continue to be classified as “sustainable after Naples Terms” (although only Yemen has received Naples flows terms), and Lao PDR has decided not to apply for HIPC relief. An IMF-World Bank joint study of 5 IDA-only CIS republics also indicated that they face high debt burdens, particularly on the fiscal side, and that if macroeconomic trends are towards the lower end of expectations, several might need flow and stock treatment on Naples terms and the Kyrgyz Republic might need HIPC-comparable treatment to be sustainable. Nigeria and Zimbabwe remain countries whose income level would justify IDA-only status, but which might well be sustainable after Naples Terms.

Interim assistance is being provided by some creditors to most of the countries which have reached decision points, but the cumbersome process of negotiating with all creditors is delaying relief considerably for some overstretched debtor administrations. Steps by the Paris Club to use earlier precedents and to provide relief by “terms of reference” for countries with small amounts of debt (e.g. São Tomé and Príncipe) are positive signs that negotiations can be simplified. Countries such as Bolivia, Guyana and Mozambique, which received Lyons stock treatment when they reached their HIPC I completion points, are not having their debt relief topped up to Cologne until completion point (Mozambique already has a moratorium on service). Guinea will be coming to Paris Club in May. The major multilateral institutions have agreed on their relief procedures and funding and negotiations are moving forward with most debtors, and progress was made at the March Annual Meeting of the IDB in Santiago on financing assurances for relief from Latin American regional multilateral creditors. African Development Bank agreements with 10 countries await finalisation, as of 18 April 2001. A few smaller regional creditor institutions are still deciding how to provide relief.

The main remaining problem is non-Paris Club creditor governments. The Fund and Bank estimate that creditors accounting for around 40% of non-Paris Club debt have agreed to provide HIPC-comparable assistance. Some others are in active discussion with the Bretton Woods Institutions about how to provide relief (for more details on relief from non-Paris Club creditors, see page 12).

Another smaller problem is commercial debt. Though most commercial debt of HIPCs has been (or will soon be) cleared by buyback or Brady-style debt reduction operations, some creditors are still refusing to participate in the operations and have even over the years launched lawsuits against debtors for full recovery of the debt. In these circumstances it takes a lot of legal fortitude and dexterity by the debtor government to insist on paying only terms which are HIPC-comparable, and the international community needs to become more involved in assisting HIPCs to push creditors to participate.

[1] See IMF/World Bank, Tracking of Poverty Reduction Expenditure in HIPCs, available at the IMF website on http://www.imf.org
[2] For an interesting debate about Ghana and HIPC by Ghanaian authors, see the JubileePlus website at http://www.jubileeplus.org

MOVES BEYOND DEBT RELIEF

Post-Conflict Countries

As discussed above, most of the countries which have not yet reached decision points are emerging from (or still in) situations of conflict. What is being done to accelerate the reintegration of post-conflict countries into the international financial system? Considerable efforts are being made here, with consideration of providing earlier HIPC decision points, a review of IDA's approach to financing post-conflict recovery, offers of funds from donors to subsidise interest payments so that the poorest countries can access IMF post-conflict resources on PRGF-comparable terms, and accelerated programmes of technical assistance to design poverty reduction programmes and improve debt management. DRI has long been contributing to this by giving priority to post-conflict countries – being amongst the first international organisations to return to the Congo Republic, Ethiopia and Guinea-Bissau after conflicts ended, and by continuing to work intensively with these countries as well as Angola, Rwanda, Sierra Leone and Togo, in addition to planning a mission to Burundi shortly.

Maintaining Long-Term Debt Sustainability

The paper prepared by Fund and Bank staff in March 2001[3] did an excellent job of showing the major risks to long-term debt sustainability of the 22 countries which have already reached decision points. It demonstrated that this will depend on implementing comprehensive polices for economic growth, poverty reduction and improved governance; on sound management of existing and new debt; on adequate concessional financing from the international community; and on combating shocks emanating from the global economy. The paper did not propose solutions to the financing issues, but the international community is moving forward on some parts of solutions. In terms of debt management improvement, DRI is cooperating in international efforts to adapt the Bretton Woods Debt Management Guidelines to the needs of HIPCs, by conducting a series of case studies aimed at providing HIPCs with a roadmap identifying priority steps to improve their debt management. These efforts will continue at the forthcoming BEAC seminar on Best Institutional Practices for Debt Management, in Ouagadougou on 21 May.

However, a key contribution to responsible debt management must come from the international community, by providing adequate concessional finance and strictly limiting their new non-concessional lending. There is growing evidence of a revival of aid flows, but at an average of 0.24% of OECD GNP they remain woefully short of the 0.7% UN target. In addition, far too much aid is still going to less poor countries, for emergency or post-conflict assistance, or is tied to infrastructure projects promoting developed country exports, rather than to supporting sustained poverty reduction strategies. Too much remains tied to the exports of one country, or otherwise restricted by procurement or other limits. Growing pressure is coming from the Bretton Woods Institutions, the UN system and like-minded donors for other aid donors to get more serious about the quantity and quality of their aid and make a meaningful contribution to global poverty reduction.

The UK government is leading efforts to restrict non-concessional lending to highly productive projects, and sponsored a civil society seminar chaired by DRI and a conference of OECD officials on this issue in London on 14-15 March.[4] But pressures from OECD exporters and financial institutions persist for their governments to guarantee or lend new non-concessional export credit finance.

Unfortunately, not nearly as much advance has been made in protecting the poorest countries against external shocks. The EU initiative to open its markets for "everything but arms" exports from the least developed countries is extremely welcome, but needs to be extended to all poor countries and to bring in other developed countries through the G7 and the WTO. International initiatives to promote market-oriented commodity risk management (both internationally and nationally) through hedging and derivatives seem to be progressing too slowly. Climate-related shocks can be insured against through the Commonwealth Disaster Management Agency, but this excludes droughts or long-term climate change. No efforts have been made to create new IMF facilities to protect the poorest against shocks or to subsidise interest payments on existing facilities though the IMF can adjust access under PRGF to help fill financing gaps. The EU's new "B Envelope" window offers greater hope of compensation against shocks, but it, as well as other donor programme aid and extra loans from the multilateral institutions, will need to be disbursed much more rapidly and automatically than in the past if they are to provide financing fast enough to stop shocks from derailing progress to the International Development Targets (or, as the UN calls them, the Millennium Development Goals).

The international campaign for more debt relief, particularly from the multilateral creditors, continues through the work of successor organisations to Jubilee 2000, such as Drop the Debt and the Jubilee International Movement for Economic and Social Justice. Drop the Debt has recently produced reports indicating that, in accounting terms, more debt relief might be possible without (as Basil Mramba, the Tanzanian Finance Minister, put it in Washington recently), "killing the goose that lays the golden egg" – i.e. closing down the institutions or severely restricting their new lending capacity.[5] The Jubilee International Movement and Jubilee Plus continue to campaign for full debt cancellation on the basis of international economic and social justice.[6] However, there is no political consensus behind such proposals, not least because creditors and debtors are realising that the fight against poverty will need to be broadened well beyond debt relief.

Poverty reduction cannot depend on the amount of debt countries had at the end of 2000 (and therefore the widely differing amounts they can spend on poverty reduction as a result of debt relief). If we are to reach the Millennium Development Goals for all countries by 2015, we will need even more aid, greater trade access, better management of borrowing and lending, and protection against external shocks. Yet we have no idea how much financing is really needed to reach the Millennium Goals - from either external sources or the countries' own resources. It is vital that the UN system (in cooperation with the Bretton Woods Institutions and other independent organisations) calculate these financing needs and present them to the international community at the next IMF/World Bank Annual Meetings and HIPCs and the UN Financing For Development Summit, so that we can be clear whether these targets are realistic and accelerate our efforts to mobilise the money needed.

[3] See IMF/World Bank, The Challenge of Maintaining Long-Term Debt Sustainability, available at http://www.imf.org
[4] See Productive Investment and Debt Sustainability in Poor Countries, seminar report, available from HM Treasury or DRI
[5] See Reality Check, a report available at www.dropthedebt.org
[6] See the World News page on the Jubilee Plus website (www.jubileeplus.org) for more details

EXPERIENCES OF A LONG TERM DEBT ADVISOR

At the end of 1997, a Demand Assessment Mission from DRI visited São Tomé and Príncipe (STP) and Guinea Bissau (GUB). The Mission concluded that in order for these two countries to fully benefit from debt relief contemplated under the HIPC Initiative, there was an urgent need to improve their debt management capacity. At the request of their governments, a Capacity-Building Advisor was selected to work on both countries. Since the situation in STP and GUB in terms of debt management was fairly similar, DRI designed a programme for the advisor to spend six months in each country. The GUB component of the programme was financed by SIDA and DRI financed the STP component. The programme started in February 1998 and I consider myself fortunate to have been chosen to be that resident advisor. My involvement with both countries started in the early part of the 90's while I was working at the World Bank, and although I later moved to other divisions of the Bank, I had always tried to keep in touch with the countries' progress over the years. Furthermore, capacity building in both countries was, from the start, the key priority of the advisor programme. I had previously been involved in training activities, but I must admit that building capacity turned out to be one of the most pleasant and rewarding jobs I have ever done. I enjoyed every day and every experience. Although the situation in both countries was alike, their position in the HIPC Initiative was very different. Guinea Bissau had fulfilled the overall objectives of the IMF programme in place at the time, and was about to have its Decision Point in mid-1998. São Tomé, on the other hand, was in the process of entering the first phase of the HIPC Initiative. As it turned out, because of civil conflict that erupted in Guinea Bissau in the middle of the year, and the fast track treatment given to São Tomé last year, both countries achieved their Decision Points at roughly the same time (end of 2000).

National Debt Strategy Workshop, Guinea Bissau

Juan Carlos Vilanova, Debt Advisor to Guinea Bissau and São Tomé & Príncipe'

GUINEA BISSAU

The civil conflict that took place in Bissau made it impossible for the programme to continue as planned and was delayed until 1999, when it was restarted in the form of short-term missions. The impact of the conflict was enormous. The infrastructure of the country was devastated, the economic activity halted and government finances, in terms of revenues and exports, taken back several years. A transition government was formed in 1999 and a new democratic government was elected at the end of that year, which meant that three different governments in three years made progress in the capacity building programme more challenging and slower than anticipated. In terms of debt, Guinea Bissau had one of the worst debt indicators in the world and one of the first priorities in the programme was to build a reliable database that would allow the governments to analyse their debt numbers and serve as the basis to calculate the impact of debt on the economy, as well as to negotiate with the BWIs. The UNCTAD DMFAS software was already being installed in the country and one element of the job was to coordinate different parties so that the database was ready in time for negotiations in 1998. Unfortunately, during the conflict in Guinea Bissau, the system was severely damaged (by a grenade) and we had to wait until the political situation allowed for the system to be re-installed. In the meantime, an Excel-based database was created by contacting the different creditors to reconcile all loan information. The database was also linked to a spreadsheet in Debt-Pro© format, in order to use this software

Observations from Rui Duarte Barros

Minister of Finance, Guinea Bissau

It has been more than five years since our Government started cooperating with DRI. During those five years, the country has greatly benefited from DRI's experience in debt management and the HIPC Initiative. It was in 1998 that my country was about to have its Decision Point when a civil conflict erupted in Guinea-Bissau. DRI continued carrying out its capacity building programme at the Ministry of Finance immediately after the conflict. Its presence in the country was through a Capacity Building Advisor, who worked on the database, training the staff in key debt issues, strengthening the Debt Monitoring Committee, contacting our donors and designing short and medium term strategies for debt reduction. The capacity building component of the programme, especially in the area of DSA was very important, and resulted in an excellent participation of the Bissau team in both the National and Regional DSA workshops.

The cooperation between DRI and the Government of Guinea Bissau has been very extensive, covering areas outside debt, such as Poverty Alleviation Programmes and Macroeconomic projections. Furthermore, the country has also benefited from DRI activities, through sharing our experiences, as well as learning from those of other countries, especially PALOP's and countries in our sub region and integrating our team into the regional programme led by the BEAC/BCEAO Pôle-Dette.

Guinea Bissau has had its Decision Point and now it is implementing its Poverty Alleviation Programme. We are thankful that we can count on DRI to help us with our future development needs.

during the negotiations with the BWIs. Reconciling any database is very slow, and the process is still going on with non-OECD countries.
The technical and negotiation skills in GUB were relatively advanced as some staff had already participated in negotiations at the Paris Club. In order to increase the capacity at the Ministry and spread and deepen knowledge, the government designed a training programme. It started with basic loan data analysis and covered debt data organization and classification, debt analysis and finally, debt reorganization and the HIPC Initiative, including Paris Club treatments. The debt staff were extraordinarily dedicated to the training, which was combined with hands-on practice in building the database and in preparing for the Regional and National DSA Workshops organized by DRI.
Institutionally, the Ministry of Finance deals with external debt. The objective was to organise the debt department to create clear career paths and different responsibilities for the staff. To that end, we agreed on the terms of reference and job descriptions for all positions. To foster cooperation between the different government institutions, we strengthened the Debt Monitoring Committee by naming a secretary and having regular meetings, designing agendas, producing minutes, and implementing follow up. During the conflict, while the country was reorganising itself, we had to cope with a lack of resources to service the debt and reduced disbursement from the multilateral institutions due to the accumulation of arrears during the conflict.
The year before the capacity building, Guinea Bissau had established a Multilateral Debt Fund (MDF) in order to channel donor grants to service multilateral debt. We worked together to strengthen the relations between the MDF and the donors. A quarterly newsletter was started and distributed via the Internet to the different donors. Efforts were also directed towards raising more funds to clear arrears and expand the number of participating donors. This effort bore fruit when clearing the arrears at Decision Point in 2000.

SÃO TOMÉ E PRÍNCIPE

São Tomé's debt might be small by international standards but its burden on the national economy is the heaviest in the world. Yet São Tomé's database was similar to Guinea Bissau's. Installing the software was less problematic, but after it was completed, the system crashed making it inoperable. The database in São Tomé is relatively small, consisting of no more than 75 loans, so the design of an interim database in Excel was less complicated than in Bissau. The database that was created served as a basis to produce tables and indicators to help the country during negotiations with the BWIs and the Paris Club and was linked to Debt-Pro©.
Negotiation skills in STP were not as advanced as in Bissau, as the country had never participated at the Paris Club. So the government designed a capacity training programme for the staff of the Ministry of Finance and the Central Bank with more stress on negotiations. Participation was excellent and assiduous.
Traditionally in STP, the Central Bank has been at the centre of debt management. One of the accomplishments of the programme was to assist the Ministry of Finance to increase its capacity. As a result, cooperation between the two institutions has continued to grow after the programme ended, and they both share the responsibilities for debt management.
To coordinate the different departments, we helped to create a Debt Management Committee which drafted a decree, which was passed towards the end of programme. Although the same training in supporting the Committee was provided, there is still a need to strengthen the procedures so that the Committee can become an important tool for the government in dealing with external debt issues.
One major success of the Capacity Building Programme was to raise awareness of debt management issues at the political level. In STP it became a key subject in briefings in all ministerial institutions. In GUB, it has become an integral part of the Ministry's main concerns. Since 1998, this political commitment has been shown by the countries' successful participation in DSA workshops and Debt Negotiations Seminars organized by DRI, as well as through positive discussions with the BWIs and the Paris Club.
On the other hand, both countries still need to strengthen their Debt Management Committees, and to be more proactive in negotiating HIPC relief and future aid. Special emphasis should be placed in finalising the installation of the DMFAS databases. Both Guinea Bissau and São Tomé and Principe have made great progress in improving debt management capacity, but the road ahead is still full of challenges. One of the most important for both is fulfilling the conditions for early Completion Points, and demonstrating that they can absorb HIPC debt relief savings rapidly on poverty reduction spending. Knowing their political leaders, as well as the technical people working at the different units, and the crying need for faster spending on poverty reduction in both countries, I am sure they will live up to the challenge.
Having ended the assignment in October 2000, I am still closely following the progress of these two countries, thankful of having been part of this programme in which all of us have grown professionally and as people. I still admire both governments' dedication to improving their debt management capacity, even in very challenging environments. Neither Decision nor Completion Points will end my willingness to assist them in this endeavour whenever I can.

Comments from Adelino Castelo David

Minister of Planning and Finance, São Tomé and Príncipe

São Tomé and Príncipe is a small country with an external debt that, by international standards is relatively small, around US$290 million. This represents a disproportionate burden for the economy that in 1998 made São Tomé the country with one of the worst debt indicators in the world.
With the objective of improving its debt management capacity and having greater success in negotiating debt reduction, the Government requested DRI to provide some technical assistance, especially in the areas of capacity building, institutional and legislative arrangements and for negotiating with the IMF and World Bank. DRI has also supported the country by organising seminars at both national and PALOP levels, where our technical staff greatly benefited from working on key debt issues.
DRI has also assisted the Government during our first round of negotiations with our Paris Club creditors, in channelling debt relief to poverty alleviation programmes, and in providing crucial contacts with other countries and institutions to share our different experiences. I have personally participated in DRI's HIPC Ministerial Network and Steering Committee Meetings, both of which are invaluable fora for presenting HIPC views to the international community on the HIPC Initiative, Poverty Reduction and our capacity-building needs.
There are still many challenges facing São Tomé before it can fully benefit from the debt relief contemplated under the HIPC Initiative. In the near future, we will have more negotiations with our Paris Club, multilateral and non-OECD creditors, continue the installation of the database, and strengthen our institutions.
With these words, I would like to thank DRI for the support already lent to São Tomé and hope to count on its assistance for future challenges.

Boca de Inferno, São Tomé & Prínicipe

HIPC INITIATIVE
COUNTRY PROGRESS AND PRSP STATUS (MAY 2001)

Country

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

	HIPC I		HIPC II	
	Decision	**Completion**	**Decision**	**Completion**
Benin	7/97	ineligible	7/00	4Q2001
Bolivia	7/97	7/98	1/00	2Q2001
Burkina Faso	9/97	6/00	6/00	4Q2001
Cote d'Ivoire	3/98	9/00	4Q2001	2003-4
Guyana	12/97	6/99	11/00	4Q2001
Mali	9/98	9/00	9/00	2002
Mozambique	6/98	6/99	4/00	2Q2001
Senegal	7/97	ineligible	6/00	2002
Uganda	4/97	4/98	2/00	4/00

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

	Preliminary HIPC Documents	HIPC II	
		Decision	**Completion**
Angola	no current timetable		
Burundi	2001	2002	2004-5
Cameroon	6/00	10/00	2002-3
Central African Rep.	2001	4Q2001	2003-4
Chad	7/00	5/01	2002-3
Congo Dem. Rep. of	no current timetable		
Congo Rep. of	2001	2002	2003-4
Ethiopia	1998	3Q2001	2003-4
Gambia	11/00	12/00	2002-3
Ghana	2001	2001	2002-3
Guinea	12/99	12/00	2002-3
Guinea Bissau	1998	12/00	2002-3
Honduras	12/99	7/00	2002-3
Kenya	no current timetable		
Lao PDR	no current timetable		
Liberia	no current timetable		
Madagascar	2001-2	12/00	2003-4
Malawi	8/00	12/00	2002-3
Mauritania	1/99	1/00	2002-3
Myanmar	no current timetable		
Nicaragua	10/99	12/00	2002-3
Niger	4Q/00	12/00	2003-4
Nigeria	no current timetable		
Rwanda	1/99	12/00	2003-4
São Tomé & Príncipe	2000	12/00	2003-4
Sierra Leone	2001	2001	2003-4
Somalia	no current timetable		
Sudan	no current timetable		
Tanzania	9/99	4/00	4Q2001
Togo	2001-2	2002	2004-5
Vietnam	no current timetable		
Yemen	no current timetable		
Zambia	8/00	12/00	2002-3

Source: DRI & IMF documents

HIPC Initiative Progress

Issues	PRSP Status/Timetable
receiving interim relief, cotton exports shock	preparing full PRSP for 4Q2001
completion point further delayed possibly for 2Q2001, no interim debt service relief between DP and CP	full PRSP presented to BWIs in April 2001
implementation of CP triggers under way, cotton exports shock	full PRSP being implemented, published in May 2000
political instability and track record delayed HIPC II Decision Point	preparing I-PRSP for 4Q2001
approaching HIPC II CP, not benefiting from Paris Club interim relief	preparing full PRSP for 4Q2001
progressing towards HIPC II CP, problems with non Paris Club comparability	preparing full PRSP for 3Q2001
approaching HIPC II CP, received moratorium in Paris Club service	preparing full PRSP for 2Q2001
receiving partially interim relief pending finalisation of bilateral agreements, IMF mission assessing PRGF compliance	preparing full PRSP, for 2002
continued difficulties to obtain comparable terms with some non Paris Club creditors, coffee exports shock	implementing full PRSP, published in March 2000
preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP for 3Q2001
negotiations for an emergency post-conflict credit with IMF	preparing I-PRSP for 2002
implementing Paris Club agreements and long list of triggers for CP	preparing full PRSP for 2002
programme agreed in January 2001, building track record for DP	preparing full PRSP for 4Q2001
implementing triggers for floating CP	preparing full PRSP for 4Q2001
negotiating post-conflict assistance with IMF	no PRSP process
discussions on PRGF not yet finalised, agreement on management of oil revenue is the key issue	preparing I-PRSP for 3Q/4Q 2001
building track record under PRGF, approved preliminary HIPC document established possible DP for 3Q2001	preparing full PRSP for 2002
Paris Club interim relief needed	preparing full PRSP for 4Q2001
new government decided on HIPC, preparing for final DSA for a DP in 2001	preparing full PRSP for 4Q2001
preparing for Paris Club (Cologne) negotiations in May 2001, problems with non Paris Club comparability	preparing full PRSP for 4Q2001
implementing Paris Club agreements and CP triggers	preparing full PRSP for 4Q2001
finalising negotiations on interim relief, negotiating new PRGF agreement while implementing DP triggers	full PRSP ready, to be presented to BWIs in 3Q2001
preliminary DSA shows ratios under HIPC thresholds, rescheduled arrears at Paris Club	preparing full PRSP for 2Q2001
government has decided not to apply for HIPC relief	preparing I-PRSP for 2Q2001
no current IMF programme	no PRSP process
Paris Club agreed to provide Cologne terms in March 2001	preparing full PRSP for 2002
negotiating Paris Club bilateral agreements, problems with comparable terms from non Paris Club creditors	preparing full PRSP for 2002
implementing long list of triggers for the floating CP, including aiming at reducing poverty by 1/3	implementing full PRSP, presented in 1Q2001
no IMF programme since 1981-82, no WB lending since 1987	no PRSP process
awaiting to receive Paris Club interim relief pending negotiations on new PRGF with IMF	preparing full PRSP for 3Q2001
preparing proposal for clearing domestic debt arrears, need more programme aid	preparing full PRSP for 2002
dropped from HIPC list but now IDA only, Paris Club provided Houston terms	no PRSP process
awaiting interim relief from Paris Club as soon as possible	preparing full PRSP for 2002
Paris Club has agreed in principle to provide interim relief on Cologne terms	preparing full PRSP for 2002
IMF mission in the field preparing preliminary DP document	preparing I-PRSP for 2Q2001
no current IMF programme	no PRSP process
no current IMF programme	no PRSP process
implementing floating CP conditions for HIPC, problems with non Paris Club creditors comparable relief	implementing full PRSP, published in 3Q2000
no IMF programme since 1998	preparing I-PRSP for 4Q2001
preliminary DSA shows ratios under HIPC thresholds	preparing I-PRSP for 2Q2001
preliminary DSA shows ratios under HIPC thresholds	preparing full PRSP for 4Q2001
extra front loading of relief by IMF obtained, problems with non Paris Club creditors	preparing full PRSP for 4Q2001

PALOP AND ANGLOPHONE NEGOTIATIONS WORKSHOPS

Following on from the previous negotiations workshops, DRI held two more negotiations workshops: the first PALOP Negotiations Workshop for three countries (Angola, Guinea-Bissau and Sao Tome), in Lisbon, from 19 to 24 February; and the second Anglophone Negotiations Workshop, in cooperation with MEFMI, for six Anglophone countries (Guyana, Malawi, Tanzania, Uganda, Zambia and Zimbabwe), in Lusaka, from 23 to 28 April.

Above: PALOP Negotiations Workshop Below: Anglophone Negotiations Workshop

As in previous negotiations workshops, countries simulated "live" negotiations with their most problematic creditors, using their own data and documents. They produced national negotiations strategy reports identifying their debt relief aims creditor-by-creditors; which will guide them through the next stages of the HIPC process. They were also trained in how to calculate whether the results of negotiations met HIPC relief standards, using the Debt-Pro© computer tool.

As always, the methodology of the workshop was adapted to the needs of specific countries. For example, in the PALOP workshop, Angola wanted to focus on renegotiation of its commercial debt; in the Anglophone workshop, Uganda wanted to analyse how to assure its debt sustainability after its HIPC II completion point, and Zimbabwe wanted to explore prospects for arrears clearance followed by debt reduction in the context of stronger relations with the international financial community. The other countries are all between decision and completion points in the HIPC Initiative and therefore simulated their current negotiations and those which will occur at completion point.

As countries advance further in their HIPC processes, it is striking how much more they can benefit from exchanging information with one another about new precedents which have been created in their negotiations. Among the key elements which emerged at the workshops were:

Higher interim relief by multilateral institutions

This included the cancellation of up to 100% of debt service by the African Development Bank and the World Bank for Guinea-Bissau, because this was necessary to reach the overall PV target for

their relief; and the contribution of 75% of its PV HIPC relief during the interim period by the IMF for Zambia, in order to overcome a hump of debt service payments to the Fund during the interim period;

New precedents for relief by non-OECD creditors

These included agreement by China to cancel 100% of "pre-cutoff" date and ODA-related debt for all African countries with which China has had good political relations (though refusing to treat recently contracted commercial debt); confirmation that the Kuwait and Saudi Funds are now planning to participate in HIPC on Paris Club-comparable terms; and more flexibility by Eastern European creditors; and

Clarification of Japanese methods of cancelling debt

In all cases, the debtor government has to pay the debt service due before receiving debt relief. The method of relief ranges from the least flexible, exporting Japanese goods to the HIPC, up to the value of the debt service paid; to the most flexible, transferring grants to a debtor account to reimburse the country for imports already purchased without any tying to Japan.

In spite of the positive steps by several creditors, the workshops have stressed once again that much remains to be negotiated by HIPCs themselves to ensure that they get the maximum relief to which they are entitled under the HIPC Initiative. Even Uganda, the most advanced in the HIPC process,
has found it extremely difficult to get relief from its non-OECD creditors: and though it is not paying these creditors, the accumulation of arrears to them is increasing the PV of their debt and
Uganda's debt sustainability ratios.

HIPCs therefore welcomed DRI's intent to facilitate a web-based network of HIPC officials to continue the exchange of information on success in negotiations, which will help all countries to maximise debt reduction and savings to spend on reducing poverty.

TRAINING FOR TRAINERS

One of the key aims of the HIPC CBP is to transfer capacity and responsibility to regional organisations such as BEAC, CEMLA, MEFMI and WAIFEM. As part of this process DRI and MEFMI will be holding a joint Training the Trainers workshop in June 2001 where MEFMI regional experts will train their regional colleagues in the skills required to train other national debt strategy analysts and to conduct national strategy workshops.

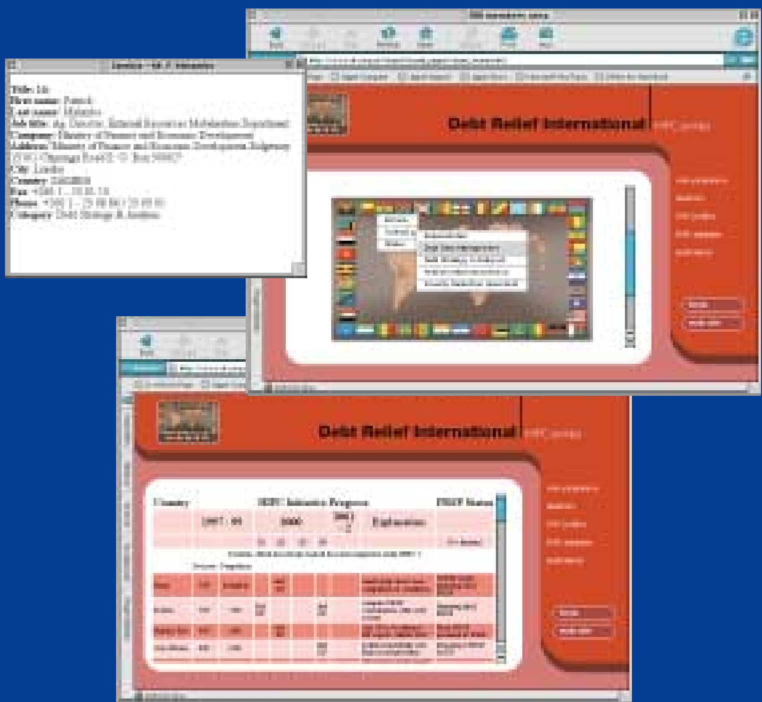
In preparation for this Training the Trainers workshop, DRI has hosted seven experts from the MEFMI region (Mosito Khethisa, Lazarus Kamanga, Patrick Malambo, Charles Abuka, Johnson Nyella, Simon Namagoa and Ben Botolo) who have been strengthening their technical skills for debt sustainability and poverty reduction analysis as well as learning about the key features of running technical tasks and plenary sessions of national strategy workshops.

In addition to honing their technical skills, the MEFMI regional experts have also been preparing additional material to make the existing DSA Manuals even more user-friendly, so that the new manuals can be used both as training manuals at national workshops as well as documents that national officials can consult to conduct their own in-country debt sustainability analysis. The new DSA manuals will be tested at the forthcoming Trainers for Trainers workshop. They will also been designing trouble-shooting manuals for trainers; identifying problems which can arise in designing strategies to reduce debt and poverty and ways to resolve them. All of these resources will be posted on the private section of the DRI website in the third quarter of 2001.

DRI Website

The Members' only sections of the DRI website are now online providing more detailed technical information for HIPC debt managers.

Register at http://www.dri.org.uk to receive your personal access codes and to receive regular updates by email of new published material.



CBP ACTIVITIES FROM FEBRUARY TO SEPTEMBER 2001

The CBP has continued to enhance HIPC debt management capacity between February and May, organising missions, regional and national training events. These included:

- **The PALOP Regional Negotiations Workshop**, in Lisbon, from 19 to 24 February (see page 8).
- **A Follow-up Mission for Guinea**, from 5 to 10 March in Conakry, to support a Debt Sustainability Analysis in preparation for upcoming Paris Club Meetings. A group of 15 officials participated in the exercise and were trained by four DRI experts in DSAs, Paris Club and the use of Debt-Pro©. The mission report highlighted key issues for implementing the HIPC Initiative and improving debt management.
- **The 2nd Anglophone Regional Negotiations Workshop** organised with MEFMI in Lusaka, Zambia from 23-28 April (see page 8).
- **A Follow-up Mission for Ethiopia**, from 30 April to 5 May in Addis Ababa, helped a national team of 15 officials from the Ministry of Finance, Ministry of Economic Development and Co-operation and the National Bank of Ethiopia update their DSA and review their I-PRSP. The workshop confirmed Ethiopia's eligibility for the Enhanced HIPC Initiative and further cemented the national team's capacity to prepare for a final Decision Point Document mission. The team prepared a report for policy-makers on the main issues for the Decision Point discussions and on how to maximise debt relief under HIPC.
- **A National Debt Strategy Workshop for the Republic of the Congo**, in Brazzaville, from 15 to 24 May, for 30 participants, to prepare a National Debt Strategy Report, organised in conjunction with the BCEAO/BEAC Pôle-Dette, in advance of a potential IMF programme and decision point in 2002.
- **A Follow-up Mission to the Gambia**, from 16 to 25 May, helped to prepare Gambian policy-makers for debt relief negotiations under HIPC by assisting a national team to download their data from CS-DRMS to Debt-Pro© using the newly upgraded link (see article on page 11), to calculate the effects on their debt sustainability of relief terms to be provided by different creditors, and to draft a report on negotiations strategies form maximising HIPC relief.
- DRI has continued to provide comprehensive capacity building training and technical advice in debt management and strategy through the advisor in **Honduras and Nicaragua** (financed by SECO). As both countries have now passed their decision points, the remaining two missions will concentrate on helping cement HIPC debt relief agreements (especially Nicaragua's Paris Club) and on training staff and finalising comprehensive debt management manuals for both countries.
- The **Rwanda Capacity Building and Debt Strategy Advisory Project (co-financed by DFID and Sida)** began formally in late February and will build Rwanda's debt management capacity for one year. The first two missions (February and April, each for 4 person weeks) have agreed a work programme for the whole assignment with policy-makers, helped to clarify responsibilities and co-ordination structures among government units, and trained staff (including some new recruits) at the debt management offices of the Ministry of Finance and the National Bank in loan interpretation, debt recording, Paris Club and the HIPC Initiative, in order to prepare them for more in-depth training in debt analysis and strategy later in the year.
- **Consultations with International Financial Institutions** on the CBP progress and scope for co-ordination continued. Meetings in London on February 26 with COMSEC exchanged work programmes and discussed joint cooperation on several countries and on the CS-DRMS-Debt-Pro©/DSM+ links (see article on page 11). Meetings in New York on March 8 with UNDP cemented earlier contacts and agreed on closer cooperation at in-country events as well as new representation at the Steering Committee of the CBP.
- Progress continued to accelerate in **transferring the CBP to MEFMI** (see articles on page 9 on Training for Trainers and on page 8 for the Anglophone Negotiations Workshop), with the aim of having a complete set of regional experts trained in all aspects of debt strategy analysis in all HIPC member states by the third quarter of 2001, so that they can then train their compatriots.
- **Transfer to the BCEAO/BEAC Pôle-Dette in Francophone Africa** has also continued at an accelerated pace with their participation in the Guinea mission and their organisation of the Republic of Congo National Debt Strategy workshop (see above). DRI has also participated in BEAC's seminar on Best Institutional Practices in Debt Management from 21 to 24 May in Ouagadougou that helped to identify priority institutional reforms in their region.
- **Transfer to WAIFEM in Anglophone West Africa** has continued with agreement on a two-year work programme and budget, and the preparation and execution of several joint activities including a follow-up mission to The Gambia (see above).
- **Transfer to CEMLA in Latin America** has been slightly delayed by finalising financing and recruitment of the Programme Co-ordinator for the regional programme, but both should be finalised shortly. The DRI Director visited CEMLA in March for fruitful discussions on the programme and recruitment interviews.
- **The DRI Website** went live in all four languages (English, French, Portuguese and Spanish) on both its public site and its private network for HIPC debt managers.
- **The DRI publications series** will be completed soon.

The next four months of 2001 (June-September) will include:

- 2 Demand Assessment Missions to Burundi and Madagascar;
- The supervision of 2 Debt Strategy and Capacity Building Advisory Projects in Honduras and Nicaragua and in Rwanda;
- 4 National Debt Strategy Workshops in the Central African Republic with BEAC, Malawi with MEFMI, Sierra Leone with WAIFEM and Rwanda;
- 7 Follow up Missions: to Burkina Faso, Chad and Niger (with BEAC); and to Bolivia, Guyana, Honduras and Nicaragua (with CEMLA);
- 1 Debt Negotiations Regional Workshop for Francophone Africa with BEAC;
- 3 Macro Forecasting and Poverty Reduction Regional Workshops;
- 1 Domestic Debt Strategy workshop for the WAIFEM region;
- 1 Training for Trainers Workshop for the MEFMI region;
- The 4th HIPC Ministerial Meeting and the 8th HIPC CBP Steering Committee Meeting on 5-6 June in London;
- The Independent Review of the CBP, involving all regional partners, members of the Steering Committee, and HIPC governments, beginning in June;
- Further consultations with HIPCs and other partners at the IMF/World Bank Annual Meetings, including a presentation to the Annual Meetings;
- Major enhancements to the website, to turn it into an online training centre; and
- Publications series 2 in all four languages.

For more details of our recent and future work programme, see http://www.dri.org.uk

DEVELOPMENT FINANCE INTERNATIONAL PROGRAMME FORGES AHEAD

The sister programme to DRI, Development Finance International, assists countries to build their own capacity to monitor and analyse private capital inflows and outflows and their effects on economic growth and poverty reduction. It has previously received funding from the governments of Denmark, Sweden, Switzerland and the UK for work in 14 countries, helping them to design their own programmes of capital account liberalisation and conduct pilot surveys of capital flows.

'Monitoring Private Capital Flows to Developing Countries Opening Workshop'

In February 2001, the DFI programme received a grant of UK£1.3 million from DFID for a pilot programme to implement the International Codes and Standards by assisting countries to monitor private capital flows and private sector external debt. This acknowledged DFI's unique methodology which met international best practice while tailoring precise methods to specific country needs, and stressing coordinating government agencies, training their staff and sensitising the private sector.

The programme is off to a flying start. Almost immediately it was asked by the Ugandan government to become technical advisor on a project financed by the Swiss government and executed by the trade and External Debt Department (TEDD) of the Bank of Uganda and K2 Consult, which aims to conduct comprehensive censuses of private capital flows and private sector debt. After an initial demand assessment mission in February, DFI helped TEDD to organise an opening sensitisation conference for the private sector, which was opened by the Governor of the Bank of Uganda, Emmanuel Tumusiime-Mutebile and attended by 60 senior representatives of the private sector and the media. This was followed by a 3-day training workshop for government officials from the Central Bank, the Statistics Office, the Ministry of Trade and Industry and the Investment Authority, who will implement the census. Early demonstration of cooperation in implementing the programme, between DRI and regional partner institutions owned and run by developing countries, was provided by the attendance of Fred Ruhakana (of MEFMI) at the workshop, building on existing cooperation agreements with DRI, and integrating MEFMI's own expertise on private capital flows recording with that of DFI. Shortly afterwards DFI received invitations from the governments of The Gambia, Malawi and Zambia to conduct initial missions to help establish task forces and implementation/training/sensitisation plans for their censuses of private flows. Missions are already in the field and results will be reported in the next newsletter.

Country projects which preceded the launch of the DRI programme are also continuing successfully. The Tanzania census has finished with responses from 70% of companies (estimated to cover around 90-95% of foreign assets and liabilities). The closing workshop to present the findings of the survey to the private sector and agree on next steps is due to be held at the end of May. In Ghana, the national Task Force has held refresher training for census enumerators and supervisors and will launch the census in May. Guyana is also launching its censuses in May.

Many other requests from low- and middle-income governments are demonstrating the crying need for capacity-building in this field, which will be crucial to assisting the stability of private capital flows and long-term poverty reduction in developing countries.

During the next six months, DFI's work programme will include initial training, sensitisation of the private sector and launches of censuses in The Gambia, Malawi and Zambia, follow-up missions to assist these governments as necessary, and the completion of two of these censuses (as well as those in Ghana and Guyana) by the end of the year. All seven countries, plus more invited for their expertise or their demand to conduct similar censuses, will then be invited to an international workshop to discuss lessons for future best practice in monitoring and analysing private capital flows and private sector debt. DRI will also expand its liaison with all potential regional partners and international institutions on these issues, in order to maximise the complementarity of assistance available to all countries.

Improving Data Transfer Links from CS-DRMS

One of the key components underlying debt sustainability analysis is being able to download debt data easily and accurately from national recording systems, such as CS-DRMS, to simulation software packages such as Debt-Pro© and DSM+. To improve and strengthen the existing link for transferring CS-DRMS debt data to Debt-Pro, Yvonne Quansah from Ghana and Mosito Khethisa from Lesotho, both expert CS-DRMS users, have been working jointly with the Commonwealth Secretariat and DRI. They have also prepared new and detailed documentation on how to use the links to download CS-DRMS debt data. The new and improved CS-DRMS – Debt-Pro© link, updated by Anna Kone of Mali, and the documentation are to be tested in The Gambia and at the forthcoming DRI-MEFMI Training for Trainers Workshop.

TECHNICAL QUESTIONS

What debt relief can HIPCs expect to receive from non-Paris Club bilateral creditors?

In principle non-Paris Club bilateral creditors are supposed to provide Paris Club comparable debt relief – i.e. Cologne Terms of 90% reduction in PV terms or more/less if deemed necessary at Completion Point. But in practice, not all non-Paris Club bilateral creditors will agree to do so. In addition to seeking comparability to Paris Club creditors in PV terms, HIPCs also need to ensure they negotiate equivalent relief in liquidity terms. For instance, some non-Paris Club creditors will provide relief equivalent to 90% in PV terms but insist that the remaining 10% is repaid immediately rather than being rescheduled over a long-term, which means less relief in liquidity terms.

Other non-Paris Club creditors may agree to debt buybacks or conversion but with a shorter-term repayment period in foreign or local currency, which means a higher discount is required to achieve Paris Club comparability.

The following table shows the latest available information for non-Paris Club bilateral some of the key points to note are:

Algeria, Argentina, Brazil, Czech Republic, Egypt, Morocco, Slovakia and Thailand provide relief on Paris Club equivalent terms.

China (PR) has agreed to cancel all aid and military debts to African HIPCs, although non-concessional debt will only be rescheduled on non-concessional terms.

On information to date, Bulgaria, Emirate Fund, Hungary, India, Oman Fund, Poland, Romania and ex-Yugoslavia, are providing less than Paris Club comparable by rescheduling or refinancing on less concessional terms, though some have shown willing to move towards Cologne Terms.

For some creditors, notably China (PR), China (Taiwan) and Egypt, maintaining good political relations is a particularly important factor in determining debt relief.

Although in the past there has been some confusion over the classification of some creditors such as the Kuwait and Saudi Funds, it has been agreed that all such creditors are bilateral, and not multilateral: debt relief should be provided accordingly.

As always we would be grateful if HIPCs or others can provide additional information on the latest debt relief terms negotiated with non- Paris Club creditors. More details of the best terms available for individual creditors will be on the DRI private website shortly.

NON-PARIS CLUB BILATERAL CREDITORS: RELIEF UNDER HIPC

Algeria	Concessional reschedulings comparable to Paris Club, Option A or B
Argentina	Debt conversions/ exchange for US bonds with up to 90% discount
Brazil	Concessional reschedulings comparable to Paris Club, Option B
Bulgaria	Non-concessional reschedulings
China (P.R.)	Non-concessional reschedulings of non-concessional debt Write off aid & military debt of African HIPCs
China (Taiwan)	Refinancing of new loans, if good political relations are maintained
Czech Republic	Buybacks with discounts of up to 89-90%
Egypt	Concessional reschedulings comparable to Paris Club for countries with close political ties
Emirate Fund	Not very concessional reschedulings (0 years grace and 7 years maturity)
Hungary	Non-concessional reschedulings/conversions
India	Non-concessional reschedulings of non-concessional debt
Iraq Fund	Debt postponement/concessional rescheduling
Korea (D.P.R)	Concessional and non-concessional reschedulings/ postponements without interest/ conversions/ payments in local currency
Kuwait Fund	Pre-HIPC: not very concessional reschedulings (0 years grace & 7 or 15 years maturity) Post-HIPC: case by case, including concessional reschedulings
Libya	Conversion proposals on expensive terms
Morocco	Concessional rescheduling comparative to Paris Club, Option B
Oman Fund	Not very concessional reschedulings (2 years grace & 12 years maturity)
Poland	Non-concessional reschedulings or conversion proposals (33% reduction)
Romania	Conversions preferred, discounts not clearly defined
Saudi Fund	Pre-HIPC: not very concessional reschedulings (0+7 or 15) Post-HIPC: case by case
Slovakia	Buybacks including reduction of 80-90%
Thailand	Discussion on debt buyback or conversion, with discounts comparable to the Paris Club
Ex- Yugoslavia	Buybacks or conversions including 40-50% reductions Debt often sold to commercial institutions

Debt Relief International
4th Floor, Lector Court, 151-153 Farringdon Road, London EC1R 3AF, United Kingdom
t: +44 (0)20 – 7278 0022 f: +44 (0)20 – 7278 8622 e: dri@dri.org.uk http://www.dri.org.uk