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IFAD'S PARTICIPATION IN THE ENHANCED HEAVILY-INDEBTED POOR COUNTRIES DEBT INITIATIVE (HIPC DI)

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Annexes

INTRODUCTION

1. The purpose of the present document is to:

(a) provide the Executive Board with a progress report on the implementation of the enhanced debt initiative for the Heavily-Indebted Poor Countries (HIPC DI); and

(b) request the Executive Board's decision on:

(i) a completion-point top-up of the debt relief, approved earlier by the Board under the original framework of the HIPC DI, for Burkina Faso;

(ii) an increase of the debt relief approved by the Board under the original HIPC DI framework, in order to meet the enhanced HIPC DI requirements for Bolivia, Mozambique and Uganda; and

(iii) debt relief under the enhanced HIPC DI for Mauritania and the United Republic of Tanzania, two new country cases.

PART I - STATE OF THE HIPC DI AND IFAD'S PARTICIPATION

2. **State of the HIPC DI.** The implementation of the HIPC DI was launched at the annual meeting of the World Bank/International Monetary Fund (IMF) in late 1996. Soon after its start-up, concerns were being expressed regarding its slow rate of implementation; limited country coverage; inadequate levels of relief, especially in terms of front-loaded relief; and the weak link between debt relief and poverty eradication. To address these concerns, several members of the Organisation for Economic Co-operation and Development (OECD) drew up detailed proposals for improving the design of the HIPC DI; and the mid-1999 G-8 Summit held in Cologne, Germany, provided policy guidelines for the blueprint of an enhanced HIPC DI framework. In response to the G-8 Summit's call, the World Bank and IMF engaged in consultations with a view to designing the expanded HIPC DI policy framework. On 26 September 1999, the co-chairpersons of the joint meeting of the Interim and Development Committees issued a statement endorsing the implementation start-up of the enhanced HIPC DI.

3. This enhanced framework consists of the following main elements: the lowering of relief eligibility thresholds and target debt ratios; the promotion of relief from the decision point onwards; and the requirement of a comprehensive country-owned poverty reduction strategy, linked to agreed international development goals, with measurable indicators to monitor progress. Annex I describes the main parameters of the policy framework for the enhanced HIPC DI. As a result, more countries will obtain faster relief that will enable them to overcome unmanageable debt in an effective and sustainable manner (see Annex II for an expanded list of countries, together with a tentative time frame). The linking of debt relief to the pursuit of specific poverty-reduction targets by the concerned governments is a matter that IFAD has pursued since the inception of the HIPC DI, and it is now gaining the centre stage in the dialogue. Details of one element of this important process, the poverty reduction strategy paper (PRSP), are given in Annex III. As a result of the enhancement of the HIPC DI policy framework, the total cost of the HIPC DI has increased to USD 28.2 billion[1] (see Annex IV). A considerable contribution will be made by the bilateral creditors, and especially by the

[1] In 1999 net present value (NPV) terms.

Paris Club under the long-standing proactive leadership of France, strongly supported by a number of other OECD countries. It should be noted that these currently available figures remain preliminary estimates.

4. As of 31 May 2000, debt relief has been agreed upon for nine countries, totalling about USD 14.2 billion in debt service relief (USD 7.8 billion in NPV terms); and to date, four countries have reached their completion point under the original framework, and one – Uganda – under the enhanced framework. In addition, the Boards of the World Bank and the IMF have reviewed eligibility for another seven countries (i.e., they reviewed preliminary documents). The eligible countries – Ethiopia, Guinea, Guinea-Bissau, Honduras and Nicaragua – could qualify for debt relief packages totalling about USD 11 billion. Two other countries that were considered to be sustainable under the original framework–Benin and Senegal–are being reassessed and are expected to qualify for debt relief under the enhanced HIPC DI. Finally, about 20 countries could have debt relief packages in place by the end of 2000, amounting to more than USD 30 billion in debt service relief (or about 17 billion in NPV terms). As the country-specific informal assessments indicate, whether this occurs or not depends on continued progress in pursuing macroeconomic, structural and social reforms in these countries.

5. By now, the World Bank and IMF Boards will have reviewed the interim PRSPs for Bolivia, Mozambique, and the United Republic of Tanzania and Uganda in connection with their respective HIPC DI decision documents. In addition, the HIPC DI document for Mauritania included an overview of Mauritania's efforts to reduce poverty and a time line for producing a fully participatory poverty reduction strategy. The World Bank and IMF Boards have also considered an interim PRSP for Sao Tome and Principe, and a full PRSP for Uganda, which was a requirement for reaching its completion point under the enhanced HIPC DI. Other countries preparing interim and full PRSP documentation for early World Bank/IMF Board consideration include: Benin, Burkina Faso, the Central African Republic, Honduras, Malawi, Niger, Senegal and Zambia.

Table 1: Debt Relief Approved by the Board of IFAD

Countries	Bolivia	Burkina Faso	Côte d'Ivoire	Guyana	Mali	Mozambique	Uganda	Total
Total Amount of NPV debt relief approved (SDR)*	**2 200 000**	**1 390 860**	**164 300**	**630 000**	**1 575 000**	**7 741 870**	**4 160 000**	**17 862 030**
In current USD								**23 578 237**

*** One Special Drawing Right (SDR) = USD 1.32002 as of 31 May 2000**

6. **IFAD's participation.** IFAD's Executive Board endorsed the principle of IFAD's engagement in the original HIPC DI at its December 1996 session[2]; and the Governing Council, in February 1997, approved the framework for IFAD's participation in the original HIPC DI in its Resolution 101/XX[3]. Under the original framework, the Executive Board has approved debt relief packages for seven countries[4]: Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique and Uganda (see Table 1). As such, the Fund is so far committed to providing a total of about USD 23.6 million in relief. In support of IFAD's resource requirements for the HIPC DI, the Government of The Netherlands pledged an amount of NLG 26.62 million (approximately USD 15.4 million) of "complementary" resources within the framework of the Fourth Replenishment of IFAD's Resources. Beyond The Netherlands' contribution, IFAD's participation in the HIPC DI is

[2] On the basis of document EB 96/59/R.73.

[3] On the basis of document GC 20/L.6 and document GC 20/L.6/Add.1.

[4] See documents: EB 97/61/R.14/Rev.1, EB 97/62/R.10/Rev.1, EB 98/64/R.11, EB 98/64/R.12/Rev.1, EB 98/64/R.13, EB 98/64/R.14, and EB 99/66/R.12 for the seven country cases; and document EB 98/65/R.8/Rev.1 for a summary overview.

currently being financed from internal resources that would otherwise be available for commitment under the programme of work to loans and grants.

7. On the basis of documents GC 23/L.7 and GC 23/L.7/Corr.1, the Governing Council decided in February 2000 that IFAD will fully participate in the enhanced HIPC DI. Efforts will be made to mobilize additional external resources to help fund IFAD's participation in the HIPC DI, and meanwhile IFAD will internalize the costs of its participation in the HIPC DI.

PART II - COUNTRY CASES FOR CONSIDERATION BY THE EXECUTIVE BOARD

8. The Executive Board is invited to consider HIPC DI decisions for: Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania and Uganda. Table 2 summarizes the technical data for the proposals. Except for Burkina Faso – a completion point decision under the original framework – and Uganda – which has reached its completion point under the enhanced HIPC DI, all other cases related to the enhanced HIPC DI will become effective once the "floating completion point" has been reached, and once agreement has been reached with the government concerned. IFAD will not provide interim relief, but will continue to sustain its original modality of front-loaded debt relief.

Table 2: Summary of Technical Data

Countries	Bolivia	Burkina Faso	Mauritania[(a)]	Mozambique	United Republic of Tanzania	Uganda
Cut-off date for eligible debt	**Dec-1998**	**Dec- 1999**	**Dec- 1998**	**Dec-1998**	**Jun-1999**	**Jun-1999**
Total outstanding debt service (SDR)	32 610 471	25 533 651	34 912 948	32 271 650	49 530 777	50 181 004
Discount rate (%)	5.25	5.589	5.25	5.25	4.87	4.87
NPV of total outstanding debt service (SDR)	18 754 998	11 193 315	15 158 293	14 801 914	22 121 593	23 655 279
Common debt reduction factor: % of NPV of debt relief	35	26.4	50	72.1	54	54
Total amount of NPV debt relief required (SDR)	**6 564 249**	**2 955 035**	**7 579 147**	**10 672 180**	**11 945 660**	**12 773 851**
(Of which the Executive Board approved earlier)	*(2 200 000)*	*(1 390 860)*	*(-)*	*(7 741 870)*	*(-)*	*(4 160 000)*
Debt relief already provided by 31 May 2000 (SDR) – *nominal*	2 574 649	0	-	161 264.93	-	2 481 274.6
(Arrears as of 31 May 2000) (SDR)	0	0	*(93 674)*	0	0	0
Net amount of NPV debt relief required (SDR)	3 989 600	2 955 035	7 579 146	10 510 915	11 945 660	10 292 576
Time period for relief (years) [(b)]	4	6	12	20	14	10
Required reduction of future nominal repayments, as a percentage of debt service[(b)]	100	100	100	100	100	100
Nominal cost of relief (SDR)[(b)]	4 926 359	3 704 738	11 400 148	18 951 262	17 932 401	14 170 254
Comments	Enhanced HIPC DI, top-up of original	Original HIPC DI, completion point top-up	Enhanced HIPC DI	Enhanced HIPC DI, top-up of original	Enhanced HIPC DI	Enhanced HIPC DI – top-up of original

(a) **Eligible under the fiscal criteria.**
(b) **The time frame and these nominal amounts of relief are indicative and will be based on the NPV-relief requirements, net of the NPV of arrears (consistent with IFAD's arrears policy) and the relief already provided at the time of completion point, when that point is reached.**

9. **Bolivia**. The Executive Board is invited to consider a top-up of the debt relief approved earlier under the original HIPC DI framework, in order to allow Bolivia to benefit from the enhanced HIPC DI framework. IFAD's basic decision to participate in the debt relief for Bolivia was taken by the Executive Board on the basis of document EB 98/64/R.13.

10. Consistent with a reduction of Bolivia's NPV of debt-to-exports ratio to the enhanced HIPC DI target of 150%, its total debt relief requirement from all of its creditors is estimated to amount to USD 854 million in NPV terms. For each multilateral creditor, this is equivalent to 29.5% of total NPV debt outstanding at the end of 1998 after full implementation of the assistance under the original framework. This is expected to translate into debt service relief over time of close to USD 1.3 billion. This amount is in addition to the approximately USD 760 million (or USD 448 million in NPV terms) of relief provided under the original HIPC DI. In all, the NPV of Bolivia's external public debt is to be reduced by 35% under the (original and enhanced) HIPC framework.

11. Under the enhanced HIPC DI, debt relief becomes irrevocable once a country reaches its "floating completion point". For Bolivia, this will occur when a poverty reduction strategy has been adopted – in a participatory process with civil society. Annex V provides an overview of the country's poverty reduction strategy and the key objectives to be achieved to trigger the completion point.

12. **Burkina Faso**. IFAD's basic decision to participate in the debt relief for Burkina Faso was taken by the Executive Board on the basis of the strategy document EB 97/62/R.10/Rev.1. Burkina Faso has now reached its completion point under the original HIPC DI framework, and because its NPV of debt-to-exports ratio has deteriorated between the decision point and this completion point, a top-up on the originally approved amount is required. IFAD's Board will, at a later stage, also need to consider the top-up related to the enhanced HIPC DI framework.

13. At completion point, the NPV of Burkina Faso's debt-to-exports ratio, after taking into account the impact of traditional debt relief mechanisms, is estimated to be 279% at end-1999, compared with 238% projected in the decision point document. The assistance committed under the original HIPC DI framework at decision point would only bring this ratio down to 242%, instead of the agreed 205%. Under the original framework, it is foreseen that if the assistance provided at completion point is not sufficient to bring a country's NPV of debt-to-exports ratio to within 10% of the target set at decision point (i.e., between 195% and 215%), it would be topped up to reach the target. This would result in an increase of USD 113 million in the amount of assistance committed at the decision point, bringing total assistance under the original HIPC DI framework to USD 228 million in end-1999 NPV terms, of which multilateral contributions account for USD 196.4 million and bilateral contributions USD 32 million.

14. **Mauritania.** Mauritania constitutes a new country case and has been reviewed within the framework of the enhanced HIPC DI. The country has established a good track record of adjustment and reform on the macroeconomic, social and political fronts. Substantial structural reforms have been implemented, and fiscal consolidation has been achieved. Reflecting this effort, gross domestic product (GDP) has grown by an annual average of close to 5% since 1992 and there has been significant improvement in social indicators, although 50% of the population remains below the poverty line.

15. In order to bring Mauritania's NPV of debt-to-revenues ratio to 250% under the fiscal criterion, total relief from all of Mauritania's creditors would amount to USD 622 million in NPV terms. For each multilateral creditor, this is equivalent to 50% of the total NPV of debt outstanding at the end of 1998. This is expected to translate into debt service relief over time of approximately USD 1.1 billion, which implies debt service savings of USD 36 million per year over the next ten

years. Based on proportional burden sharing of NPV of debt outstanding at end-1998, the multilateral contribution would be USD 361 million and that of bilateral creditors USD 261 million.

16. Assistance becomes irrevocable once the country reaches its "floating completion point", which is triggered by successful implementation of a set of predefined reforms in the macroeconomic, structural and social domains. To reach the completion point, Mauritania is required to: (a) prepare, in broad consultation with civil society, a fully developed PRSP; and (b) implement the strategy for at least one year. The PRSP will also serve as a basis for future concessional assistance from the World Bank and the IMF. Annex VI provides an overview of the country's poverty reduction strategy and the key objectives to be achieved to trigger the completion point.

17. **Mozambique**. IFAD's basic decision to participate in the debt relief for Mozambique was taken by the Executive Board on the basis of the strategy document EB 98/64/R.12/Rev.1. This is the second case (Uganda was the first) where the Executive Board is invited to consider a top-up of the debt relief approved earlier under the original HIPC DI framework in order to allow a country to benefit from the enhanced HIPC DI framework.

18. Mozambique has made substantial progress in achieving macroeconomic stability, carrying out structural reforms and strengthening its policy efforts towards poverty reduction. During the past four years, real GDP grew by almost 10% a year on average, while average annual inflation fell from about 47% to 2%. Mozambique has also made strong structural adjustment efforts in recent years, including in areas of fiscal management, governance and public administration, and private sector development. Despite the difficulties posed by the recent floods, Mozambique is determined to continue these efforts so that it can harvest the full benefits of the debt relief made possible through the HIPC DI.

19. In order to lower its NPV of debt-to-exports ratio to 150% (end-1998), the required total debt relief from all of Mozambique's creditors under the enhanced framework amounts to USD 600 million, or USD 254 million in NPV terms. Under the decision taken, all creditors would provide an additional reduction in NPV terms equal to 9.3% of their outstanding claims as of end-1998. In total, HIPC DI debt relief would amount to USD 4.3 billion (USD 1.97 billion in NPV terms) or 72.1% of debt outstanding at end-1998.

20. The completion point will be reached once the following conditions have been met: (a) completion of an agreed and fully participatory PRSP; (b) implementation of an agreed set of measures in the context of the country's PRSP, including in areas of social development, public sector reform, and the legal and regulatory framework; and (c) maintenance of a stable macroeconomic environment, as evidenced by satisfactory performance under a programme supported by an arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF). Annex VII provides an overview of the country's poverty reduction strategy and the key objectives to be achieved to trigger the completion point.

21. **The United Republic of Tanzania.** The United Republic of Tanzania constitutes a new country case that has been reviewed immediately in the framework of the enhanced HIPC DI. The country's eligibility for debt relief under the enhanced HIPC DI is in recognition of the substantial progress made in implementing a comprehensive programme of macroeconomic, structural and social reforms, and achieving poverty reduction. During the past few years, growth rates have averaged more than 4% per annum, inflation has declined to less than 7%, and the Government has been repaying domestic debt. The United Republic of Tanzania has also implemented significant reforms in external, financial and public sectors.

22. To achieve the NPV of debt-to-exports target of 150%, total relief from all of the United Republic of Tanzania's creditors would amount to USD 2.03 billion in NPV terms. Under the decision

taken, all creditors would provide a reduction of 54% in the NPV of their outstanding claims as of end-June 1999.

23. The completion point will be reached once the following conditions have been met: (a) maintenance of a stable macroeconomic environment, as evidenced by satisfactory performance under a programme supported by an arrangement under IMF's PRGF, and specific structural reform measures in the areas of governance, government financial management, tax reform, and improvement of the business environment and of utility performance; (b) completion of an agreed PRSP through a participatory process, and a first annual report on the progress of the implementation of the strategy; and (c) implementation of a set of other measures specifically related to poverty reduction. Annex VIII provides an overview of the country's poverty reduction strategy and the key objectives to be achieved to trigger its completion point.

24. **Uganda.** IFAD's basic decision to participate in the debt relief for Uganda was taken by the Executive Board on the basis of document EB 97/61/R.14/Rev.1. In this case too, the Executive Board is invited to consider a top-up of the debt relief approved earlier under the original HIPC DI framework in order to allow Uganda to benefit from the enhanced HIPC DI framework.

25. Uganda's eligibility for debt relief under the enhanced HIPC DI recognizes the effectiveness of Uganda's poverty reduction strategy to date, the application of resources from debt relief under the original HIPC DI framework to its poverty reduction programmes, the iterative process involving civil society in the formulation of the poverty reduction strategy, and the authorities' continued commitment to macroeconomic stability and structural reform. Annex IX provides an overview of the country's poverty reduction strategy.

26. In order to bring Uganda's NPV of debt-to-exports ratio to 150%, total relief required under the enhanced HIPC DI is USD 656 million in NPV terms. For each multilateral creditor, this is equivalent to 37.51% of total NPV debt outstanding at end-June 1999 after full implementation of the assistance under the original framework. This is expected to translate into debt service relief over time of about USD 1.3 billion. This amount is in addition to the USD 650 million (or USD 347 million in NPV terms) of relief provided in April 1998 at Uganda's completion point under the original HIPC DI. Thus total debt service relief under the original and the enhanced HIPC DI frameworks will yield approximately USD 2 billion. Uganda has already reached its completion point under the enhanced HIPC DI, and therefore the debt relief will be delivered immediately upon Board approval and government agreement.

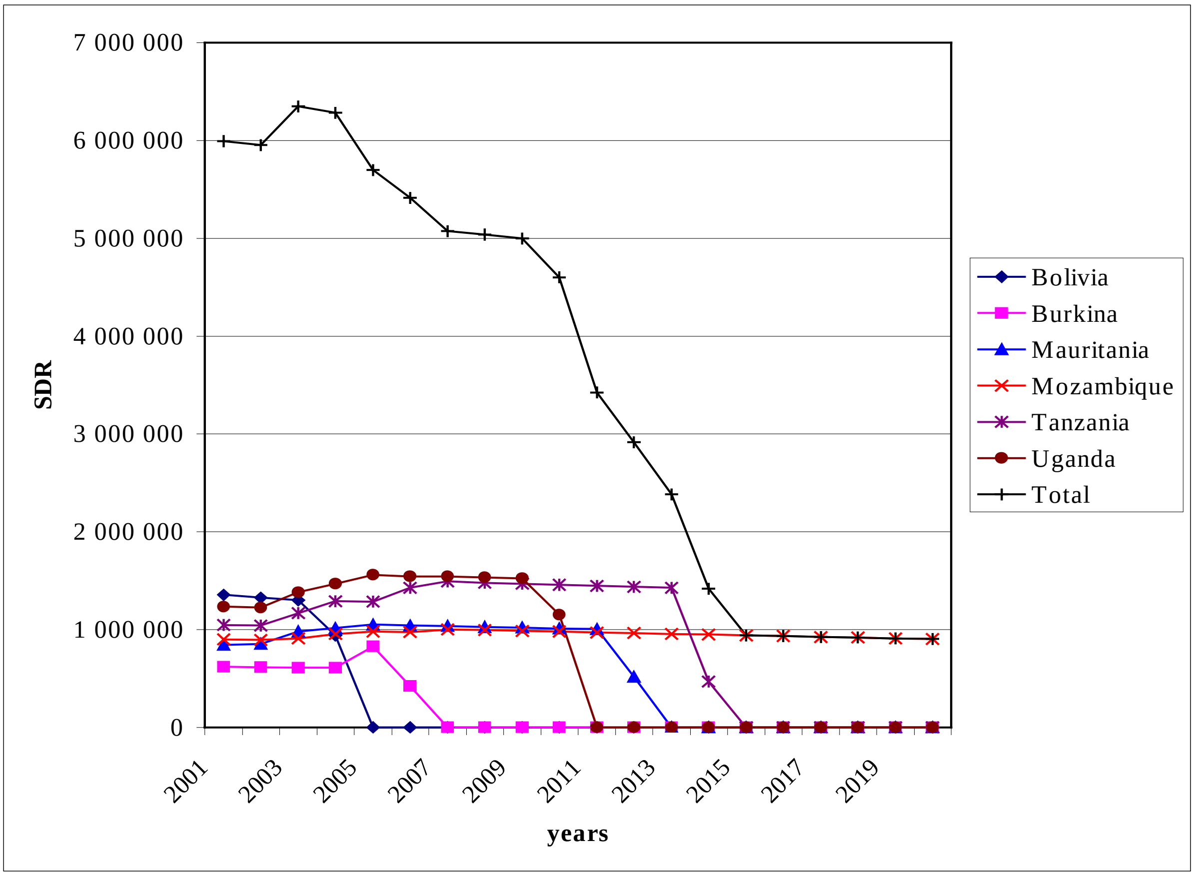
27. **Total cost to IFAD.** As can be concluded from Table 2, the total amount of debt service being treated under this proposal amounts to SDR 225 million (USD 297 million), or SDR 106 million (USD 140 million) in NPV terms. The total amount of debt relief required for the six countries amounts to SDR 52.5 million (USD 69.3 million) in NPV terms.

28. The tentatively estimated total nominal cost to IFAD of the debt relief for the six countries concerned, and including the relief approved earlier by the Executive Board (minus the relief already provided), amounts to SDR 71.1 million (USD 93.9), spread over a period of 4 to 20 years – depending on the country – and assumed to start in 2001 (as illustrated in Table 3). Graph 1 indicates that the annual nominal cost for the six cases together will reach its highest level, SDR 6.4 million (USD 8.5 million), in 2003.

Table 3: Annual Nominal Cost to IFAD (in SDR)

	Bolivia	Burkina	Mauritania	Mozambique	Tanzania	Uganda	Total
2001	1 355 107	619 928	840 888	898 863	1 047 135	1 233 297	5 995 217
2002	1 328 019	615 678	854 424	892 387	1 040 525	1 224 898	5 955 931
2003	1 300 932	611 429	979 043	908 681	1 167 450	1 381 535	6 349 069
2004	942 301	607 179	1 015 319	956 417	1 292 372	1 469 896	6 283 483
2005	0	828 036	1 051 106	980 911	1 283 091	1 557 149	5 700 292
2006	0	422 488	1 043 290	973 503	1 429 373	1 545 619	5 414 273
2007	0	0	1 035 473	1 002 836	1 491 017	1 546 668	5 075 995
2008	0	0	1 027 657	995 153	1 480 026	1 535 044	5 037 879
2009	0	0	1 019 841	987 469	1 469 034	1 523 419	4 999 764
2010	0	0	1 012 025	979 786	1 458 043	1 152 730	4 602 583
2011	0	0	1 004 208	972 102	1 447 052	0	3 423 362
2012	0	0	516 875	964 418	1 436 060	0	2 917 354
2013	0	0	0	956 735	1 425 069	0	2 381 804
2014	0	0	0	949 051	466 156	0	1 415 207
2015	0	0	0	941 367	0	0	941 367
2016	0	0	0	933 684	0	0	933 684
2017	0	0	0	926 000	0	0	926 000
2018	0	0	0	918 317	0	0	918 317
2019	0	0	0	910 633	0	0	910 633
2020	0	0	0	902 949	0	0	902 949
Total	4 926 359	3 704 738	11 400 148	18 951 262	17 932 401	14 170 254	71 085 163

Graph 1: Annual Nominal Cost to IFAD



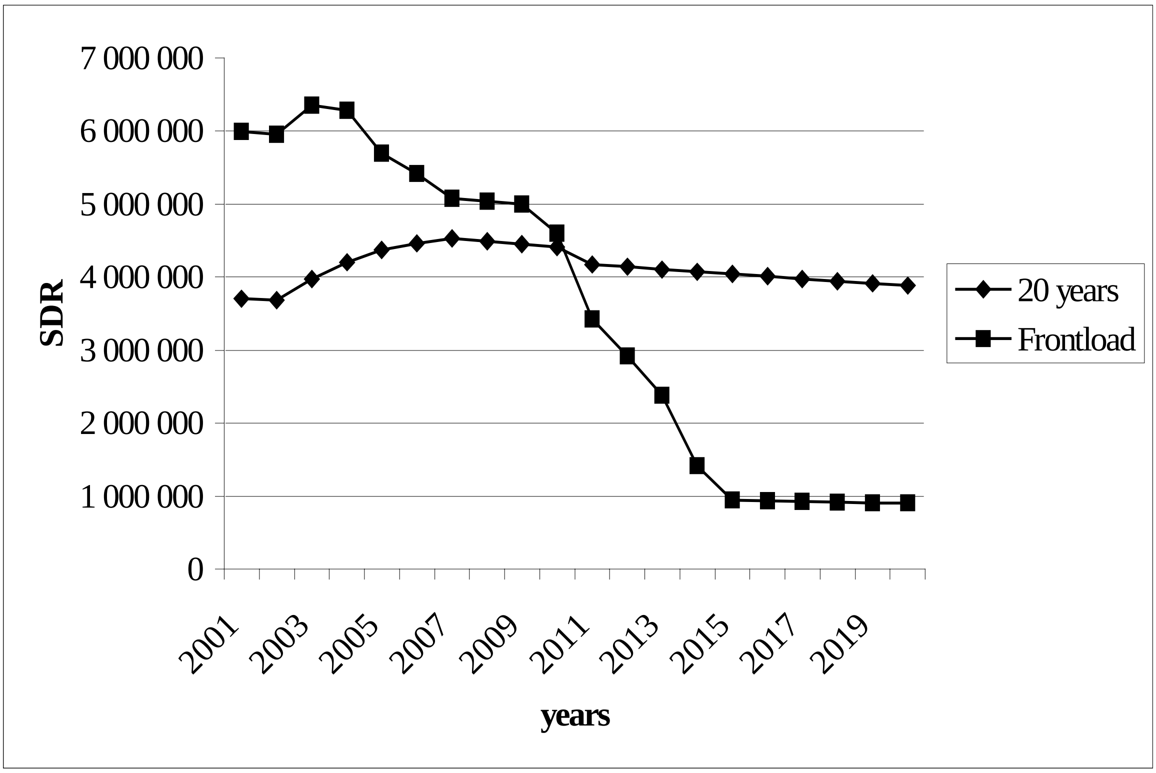
29. As indicated in Annex X, the debt being processed in this proposal for six HIPCs amounts to about 22% of the total. Assuming that the other HIPCs have an average loan maturity profile and debt relief requirement similar to this group of six countries, and assuming that this would result in similar ratios of nominal debt relief and debt relief profiles, IFAD would face a nominal debt relief requirement of USD 38.6 million in 2003. A more detailed analysis, based on end-1998 data in USD terms, is provided in GC 23/L.7.

30. This high level of cost in a given year is the result of front-loading the relief, in line with the spirit of the enhanced HIPC DI of providing deeper and faster relief. Indeed, it is the result of sustaining the original modality of 100% of debt service relief until the NPV relief target has been reached. To achieve a better balance between the efficiency of the debt relief measures, on the one hand, and the impact of IFAD's participation in the enhanced HIPC DI on the resources the Fund has available for commitment, on the other, IFAD tested a modality of reducing the debt-service obligations by a proportion that will achieve the debt-relief targets over a period of 20 years. The result for the six countries under discussion, and the comparison with the front-loading modality, is shown in Table 4 and Graph 2. The front-loading modality was finally retained because: (a) it is more consistent with the objective of providing faster relief; (b) the total nominal cost for the same NPV amount is about SDR 11.4 million (USD 15 million) lower; (c) it reduces the risk of arrears on partial debt service requirements; and (d) loan administration is less complex.

Table 4: Comparing Modalities for Debt Relief
(in SDR)

	20 years	Front load
2001	3 702 459	5 995 217
2002	3 684 642	5 955 931
2003	3 968 039	6 349 069
2004	4 201 767	6 283 483
2005	4 374 716	5 700 292
2006	4 457 769	5 414 273
2007	4 527 918	5 075 995
2008	4 487 734	5 037 879
2009	4 447 549	4 999 764
2010	4 407 364	4 602 583
2011	4 170 516	3 423 362
2012	4 138 277	2 917 354
2013	4 106 038	2 381 804
2014	4 073 799	1 415 207
2015	4 041 561	941 367
2016	4 009 322	933 684
2017	3 977 083	926 000
2018	3 944 844	918 317
2019	3 912 605	910 633
2020	3 880 367	902 949
Total	82 514 369	71 085 163

Graph 2: Difference Between Scenarios



31. Although the Executive Board needs to make high levels of irrevocable pluri-annual commitments at the time it considers a proposal, the actual costs will be incurred by IFAD on a yearly pay-as-you-go basis as debt service relief is being provided. As such, the Board makes commitments against future reflows, in a sense on an advanced commitment basis. Debt relief is therefore an issue of reduced inflows of resources, a future annual reduction in resources available for commitment, to be taken into account in all discussions related to the adequacy of IFAD's resource base. It is not directly an issue of the programme of work, and as such it secures the additionality of the HIPC DI. IFAD's annual financial statements will account for HIPC DI in a manner fully compatible with the international accounting standards in force, and the "IFAD HIPC DI Trust Fund" will, from now on, only be used to receive additional external contributions as well as the estimated amounts of annual resource requirements to finance IFAD's HIPC DI commitments. The Governing Council will be informed about this development.

PART III - RECOMMENDATION

32. I recommend that the Executive Board approve the proposed contribution to the reduction of the debt to IFAD for Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania and Uganda, within the framework of the HIPC DI in terms of the following resolution:

> **RESOLVED**: that the Fund, upon declaration at the completion points by the World Bank and the International Monetary Fund that Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania and Uganda have satisfied the conditions for their respective debt relief under the HIPC DI, shall reduce the value of the debt to IFAD for Bolivia, Burkina Faso, Mauritania, Mozambique, the United Republic of Tanzania and Uganda, through **forgiving their respective semi-annual debt service obligations** to IFAD (principal and service charge/interest rate payments) as these fall due after their respective completion points, and up to the aggregate SDR net present values listed in Table 5.

Table 5: Summary of Decisions Requested from the Executive Board

	Decisions Requested from the Executive Board					
	Bolivia	**Burkina Faso**	**Mauritania**	**Mozambique**	**Tanzania**	**Uganda**
Total outstanding debt service (SDR)	32 610 471	25 533 651	34 912 948	32 271 650	49 530 777	50 181 004
NPV of total outstanding debt service (SDR)	18 754 998	11 193 315	15 158 293	14 801 914	22 121 593	23 655 279
Total % of NPV of debt relief	35	26.4	50	72.1	54	54
Total amount of NPV debt relief required, *including* amounts earlier approved by the Executive Board (SDR)*	6 564 249	2 955 035	7 579 147	10 672 180	11 945 660	12 773 851
Policy framework	Enhanced HIPC DI – top-up of original	Original HIPC DI – completion point top-up	Enhanced HIPC DI	Enhanced HIPC DI – top-up of original	Enhanced HIPC DI	Enhanced HIPC DI – top-up of original

* ***The corresponding nominal amounts of relief are indicatively provided in Table 2 above. Also see Note 2 to that same table.***

PARAMETERS OF THE POLICY FRAMEWORK FOR THE ENHANCED HIPC DI

(a) Deeper Debt Relief:

- by lowering the NPV debt-to-exports target from 200-250% to 150%;
- by lowering the NPV debt-to-fiscal revenues target from 280% to 250%, and by lowering the qualifying thresholds from 40% to 30% for the exports-to-GDP ratio, and from 20% to 15% for the revenues-to-GDP ratio; and
- by calculating debt relief based on actual data at the decision point rather than on projections for the completion point.

(b) Faster Debt Relief:

- by providing interim relief between the decision and completion points;
- by introducing floating completion points, permitting strong performers to reach the completion point earlier; and
- by front-loading the delivery of debt relief, subject to the debt-service profile due to creditors.

(c) Stronger Link to Poverty Reduction:

- through the requirement of a poverty reduction strategy paper (Annex III); and
- by making decisions on the basis of interim PRSPs, in order to accelerate access to debt relief without compromising both the quality of the participatory process and the result of the countries' poverty reduction strategy efforts.

(d) Results:

- greater safety margin for the achievement of debt sustainability;
- more freeing-up of resources earlier for enhanced focus on poverty reduction;
- stronger impact on poverty eradication;
- expansion of eligibility from 29 to 36 HIPCs, and possibly other countries; and
- increase in overall costs.

ANNEX II

LIST OF HIPC DI COUNTRIES AND TIME FRAME

40 HIPCs
Angola *
Benin
Bolivia
Burkina Faso
Burundi*
Cameroon
Central African Republic*
Chad
Congo, D. R.*
Congo*
Côte d'Ivoire
Ethiopia*
Ghana
Guinea
Guinea-Bissau*
Guyana
Honduras
Kenya
Laos
Liberia*
Madagascar
Malawi
Mali
Mauritania
Mozambique
Myanmar*
Nicaragua
Niger
Rwanda*
Sao Tome and Principe
Senegal
Sierra Leone*
Somalia*
Sudan*
United Rep. of Tanzania
Togo
Uganda
Viet Nam
Yemen
Zambia

36 Unsustainable Cases
Benin
Bolivia
Burkina Faso
Burundi*
Cameroon
Central African Republic*
Chad
Congo, D. R.*
Congo*
Côte d'Ivoire
Ethiopia*
Ghana
Guinea
Guinea-Bissau*
Guyana
Honduras
Laos
Liberia*
Madagascar
Malawi
Mali
Mauritania
Mozambique
Myanmar*
Nicaragua
Niger
Rwanda*
Sao Tome and Principe
Senegal
Sierra Leone*
Somalia*
Sudan*
United Rep. of Tanzania
Togo
Uganda
Zambia

4 Sustainable Cases
Angola
Kenya
Vietnam
Yemen

9 Retroactive Cases
Benin
Bolivia
Burkina Faso
Côte d'Ivoire
Guyana
Mali
Mozambique
Senegal
Uganda

27 Other Eligible Countries
Burundi*
Cameroon
Central African Republic *
Chad
Congo, D. R.*
Congo *
Ethiopia *
Ghana
Guinea
Guinea-Bissau*
Honduras
Laos
Liberia *
Madagascar
Malawi
Mauritania
Myanmar *
Nicaragua
Niger
Rwanda*
Sao Tome and Principe
Sierra Leone *
Somalia *
Sudan *
United Rep. of Tanzania
Togo
Zambia

Decision Point Before End-2000
Benin
Bolivia
Burkina Faso
Côte d'Ivoire
Guyana
Mali
Mozambique
Senegal
Uganda
Cameroon
Chad
Ghana
Guinea
Guinea-Bissau*
Honduras
Malawi
Mauritania
Nicaragua
Rwanda*
United Rep. of Tanzania
Zambia

Decision Point After 2000
Burundi*
Central African Republic*
Congo, D. R.*
Congo*
Ethiopia *
Laos
Liberia*
Madagascar
Myanmar*
Niger
Sao Tome and Principe
Sierra Leone*
Somalia*
Sudan*
Togo

Not Seeking Debt Relief
Ghana
Laos

Without IMF Programmes
Burundi*
Central African Republic*
Congo, D. R.*
Congo *
Ethiopia*
Myanmar*
Niger
Sierra Leone*
Togo

With IMF Programmes
Madagascar
Sao Tomw and Principe

Inadequate Data
Liberia
Somalia
Sudan

*/ Conflict-affected, as listed in the *Quarterly Monitoring Report on Conflict Affected Countries*, Jan-Mar 2000.

THE POVERTY REDUCTION STRATEGY PAPER[5]

(a) Characteristics:

- It must be cogent, highly strategic and action-oriented documents that describes the priorities in the government's poverty eradication strategy, and that spells out the budgetary implications of this prioritization.
- It must ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development.
- It should serve as the basis for designing World Bank and IMF lending operations, and as a framework with which all PRGF- and World Bank-supported programmes should be consistent.

(b) Contents:

- medium- and long-term goals for poverty reduction and social development, with a range of relevant results-oriented indicators for monitoring progress in poverty reduction;
- a macroeconomic framework consistent with the poverty reduction and social development goals, over at least a three-year time frame;
- structural reforms and priorities, sectoral strategies (three-year agenda) and associated funding needs (domestic and external) necessary to deliver the growth and poverty reduction objectives;
- anti-poverty and other social policies, linked to an analysis of the social impact of macroeconomic and structural policies, and associated funding needs (domestic and external); and
- overall external financing needs for each year of the programme.

(c) Process:

- It must be produced in a way that ensures transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation – with the ultimate ownership by the government:

  - governments take the lead;
  - participation of civil society and other stakeholders (e.g., donors) is secured;
  - with possible facilitation by and technical assistance from the World Bank and the IMF;
  - annual reviews and reworking of the PRSP, e.g., every three years, to ensure that the framework remains sufficiently current.

- Where possible, it should be linked to the community development fund (and the common country assessment).

5 Subject to availability of human resources, IFAD may want to play a proactive role in supporting HIPCs to enhance the quality of their poverty reduction strategy, at least in some strategically important countries, and in close cooperation with its strategic partners.

THE ENHANCED HIPC DI: WORLD BANK/IMF ESTIMATES OF POTENTIAL COSTS BY CREDITOR

(USD billion in 1999 NPV terms)

	Updated Costing Exercise for 32 Countries* **in 1999 Terms**	**Details**
Total costs	28.2	
Bilateral and commercial creditors	14.1	
Multilateral creditors:	14.1	
World Bank		**6.3**
IMF		**2.3**
AfDB/AfDF		**2.2**
IDB		**1.1**
Other		**2.2**

AfDB - African Development Bank
AfDF - African Development Fund
IDB - Inter-American Development Bank

Source: "HIPC Initiative: Update on Costing the Enhanced HIPC Initiative", IDA/Sec M99-679, 8 December, 1999.

* **Excluding Ghana, which has not requested HIPC DI assistance, and Liberia, Somalia and the Sudan. Based on the application of retroactivity to end-1998 data, the latest available at the time of endorsement of the enhanced framework, as discussed in the World Bank /IMF July 1999 modifications paper.**

BOLIVIA

CONDITIONS FOR FLOATING COMPLETION POINT

1. As approved by the IMF and World Bank Boards in January 2000, Bolivia would reach its **floating completion point** at such time when it has: (a) observed the programme supported by the Fund under the poverty reduction growth facility; (b) completed its national dialogue with civil society, scheduled to be held during the first half of 2000; and (c) fully defined its anti-poverty strategy and designed, in the context of the PRSP, a comprehensive set of indicators in a participatory process to monitor progress in poverty reduction. Reaching the completion point would also require that the World Bank/IMF Executive Directors consider the overall approach set out in the PRSP and endorse it as a context for the World Bank's and the Fund's assistance. Bolivia's overall progress in poverty reduction must also be broadly acceptable.

2. Current expectations are that the authorities will have completed a full PRSP, which would enable a completion point by late 2000.

BOLIVIA: FULFILMENT OF HIPC POLICY ACTIONS: RURAL DEVELOPMENT AND THE FIGHT AGAINST POVERTY

Policy Action	Variable Indicator	Completed 1997	Completed 1998	Comments
Improve monitoring of expenditures and outcomes in social sectors and rural development	1. Database and monitorable indicators for rural development and poverty alleviation to be developed by mid-1998	Yes	Yes	Performance is continually improving.
	2. Effective systems to be put in place at the central (end-1997), prefectural (end-1998) and municipal (end-1999) levels for monitoring public social expenditures	Yes	Yes	This is an ongoing activity that is being performed by the economic policies analysis unit (UDAPE) and the national statistics office (INE)
	3. The role of the social policies analysis unit (UDAPSO) in monitoring social expenditure and poverty to be reviewed and strengthened by end-1997	Yes	Yes	Completed in 1997
Establish a clear policy for social and rural funds	4. To be completed by March 1998 and new system introduced thereafter	Yes (in progress)	Partially	Policy and strategy definition commenced in 1998, but the definition was not concluded nor did the implementation begin in 1998.
Strengthen the land tenure system, improve land distribution and improve agricultural research	5. Real Estate Registry Law to be presented to Congress by end-1998	Yes	Partially	Although a draft of a real estate registry law has been introduced in the Congress, there is a lack of basic consensus within the sector regarding this draft, and also a lack of coordination regarding this matter, which is delaying any possible progress of the draft.
	6. Competitive agricultural research and extension system developed by end-1997	No	Partially	The creation of technology research and transfer foundations was proposed. However, their structure was changed following conditions placed by bilateral donors, and this proposal still has not been taken up by the Government.
Establish a policy and framework for providing microcredits and rural finance	7. To be established by March 1998 and introduced thereafter	Yes	Yes	The Government has made considerable progress in establishing a policy framework and in the defining measures to provide microcredit and in applying these measures. Nevertheless, the extension of credit by the private sector in rural areas continues to be in its initial stages

BOLIVIA: FULFILMENT OF HIPC POLICY ACTIONS: HEALTH

Policy Action	Variable Indicator	Completed 1997	Completed 1998	Observations
Develop a national health strategy in the context of decentralization, which among other things, improves sector financing	1. Strategy to be developed by end 1997 and implementation initiated by mid-1998	Yes (late)	Yes	There are several versions of the *Plan Estratégico de Salud* (PES), the first one, dated October 1997, and the last one in August 1998. The PES began to be implemented in 1998 with the promulgation of specific laws on basic health insurance and on the decentralization of health systems in the departments (DS 25060) and municipalities (DS 25233)
	2. Proposal presented for health system financing mechanism by mid-1998 and implementation by the system initiated by end-1998	No	Partially	A proposal for the reform of health financing has not yet been developed. However, in late 1998, some laws defined new financial mechanisms for health care. The definition of 6.4% of the 85% of the transfers of funds from central government to municipalities was tied with the basic health insurance law (BHI) implemented in July 1999. Moreover, the destination of 10% of Caja Nacional de Salud income was tied with the purchase of vaccines for early childhood immunization. The World Bank will consider these policy actions fulfilled when a detailed proposal is elaborated.
	3. Proposal presented for new health care delivery system in all municipalities by mid-1998	No	Partially	The BHI law was approved in December 1998 and implemented in 1999. It guarantees the delivery of 70 basic health care interventions sponsored by municipalities and targeting the poorest 3 million people of the country. Many municipalities (90%) signed agreements with the central government to implement the BHI law. However, most municipalities lack the infrastructure to ensure the delivery of these services. The World Bank will consider this policy action fulfilled when a strategy for the delivery of BHI is defined.
Increase public expenditures on health	4. Established targets for public expenditures on health	No	Yes	Quantitative targets were defined for 1998, 1999 and 2000. However, these targets were extremely modest. The target set for 1998 (1.28%) was below the actual value in 1996 (1.31%), and the targets for 1999 (1.34%) and 2000 (1.4%) do not call for substantial increases

BOLIVIA: FULFILMENT OF HIPC POLICY ACTIONS: EDUCATION

Policy Action	Variable Indicator	Completed 1997	Completed 1998	Comments
Increase public expenditures on basic education, especially non-salary expenditures	1. Establish targets for non-salary basic expenditures	No	Yes	No comment (N/C)
Develop a plan for reducing expenditures on higher education as a share of total education expenditures	2. To be completed by end-1997	No	Yes	N/C
Improve coverage of basic education in rural areas, especially for girls	3. Develop (by end-1997) and begin implementing (by mid-1998) a plan to improve access to basic education of girls living in rural areas	No	Yes	N/C
Improve quality of basic education	4. Develop an action programme for continued implementation of school-level quality improvement programmes 5. Devise a strategy to provide a minimum package of textbooks to all students in primary and secondary school, to be developed by mid-1998 6. Establish a national assessment system by end-1997, including a baseline analysis and publication of the results	Yes Yes Yes	Yes Yes Yes	N/C N/C N/C
Improve access to early childhood education	7. Establish a policy and institutional framework for an early childhood development programme	Yes	Yes	N/C
Adapt education reform to popular participation and decentralization	8. Enact modifications to education reform regulations by mid-1998	No	Yes	N/C

MAURITANIA

A. POVERTY REDUCTION STRATEGY

1. In 1998, the Government of Mauritania established a *Commissariat aux droits de l'homme, à la lutte contre la pauvreté et à l'insertion* whose mandate is to conceive, promote and coordinate national policies in the areas of human rights, poverty reduction and social integration, in consultation with concerned ministries. In terms of poverty alleviation efforts, the Commissariat has two broad areas of responsibilities: poverty analysis and monitoring; and design and implementation of select targeted action programmes aimed at meeting the basic needs of the poorest. It has worked in close consultation with non-governmental organizations, regional elected representatives, local administrations, as well as the national statistics office and other relevant institutions. In November 1999, the Government also established an interministerial committee chaired by the Prime Minister to coordinate government actions on poverty reduction.

2. At the Consultative Group Meeting in March 1998, the Government presented its poverty reduction strategy for the period 1998-2001. The Government is fully aware that understanding the dynamics of poverty will require availability of high-quality and relevant baseline data. In that respect, five household surveys were conducted between 1987 and 1995, and two poverty profiles were produced in 1987/88 and 1995/96. While these surveys have allowed for adequate compiling of relevant economic and social statistical information, they must now be updated. Moreover, additional analytical work is needed to deepen the understanding of determinants of poverty and to design and evaluate strategic axes of poverty reduction. A population census and a demographic and health survey will be launched soon, as well as a new household expenditure survey (to be financed out of the national budget). This quantitative information will be complemented by a comprehensive qualitative poverty assessment carried out in a participative way and involving various segments of society.

3. Finally, the Mauritanian authorities have launched the preparation of a broad-based, fully participatory poverty reduction strategy to be presented to the World Bank and IFAD Boards by end-2000. They are committed to engaging civil society in the preparation process and, in that context, the Government organized in December 1999 the first in a series of round tables involving the participation of the main domestic stakeholders. The three-day round table gathered elected local and parliamentary representatives, 18 NGOs working on poverty alleviation, other civil-society groups, such as trade unions and religious leaders, and the donor community. Working groups on microfinance, labour-intensive public works and social development were also part of the programme . Following the presentation of a set of available poverty indicators and their recent evolution, the round table launched the discussion on the poverty reduction strategy, its content and objectives, as well as on the preparation and participation process.

B. MEASURES AND OBJECTIVES TO REACH THE FLOATING COMPLETION POINT

4. Full implementation of the measures and satisfactory performance with respect to the objectives reported below would allow Mauritania to reach the completion point under the HIPC initiative:

(a) Macroeconomic and Structural

- Stable **macroeconomic conditions,** characterized by consistent and sustainable internal and external balances, allowing for an increase in expenditures on well-targeted social and poverty reduction programmes, subject to the availability of external financing and adequate domestic absorptive capacity.

- An exchange rate policy that encourages export diversification and external competitiveness, in which the official exchange rate is fully determined by the actual rate used in the transactions of the interbank market, with the participation of exchange bureaux. This policy is to be supported by a **foreign exchange system** that is free of restrictions on payments and transfers for current international transactions, and where the spread between the interbank and the parallel market rate for cash transactions is maintained below 10%.

- The implementation of tax **reform and good governance** measures, including the elimination of tax exemptions, the unification of valued-added tax (VAT) rates, the creation of the large-taxpayers unit and the adoption of standard bidding documents for public procurement contracts.

- The **privatization** of Air Mauritanie and of parts of the major utility companies (OPT and SONELEC), according to the terms agreed with World Bank and IFAD staff.

- Significant progress towards commercial banks' full compliance with the general **prudential regulations**, as established in the 1995 Banking Law, and in particular the respect by each bank of the following ratio of risk exposure to capital: 20% for a single borrower and 40% for a group of connected borrowers.

(b) Social Sector and Poverty Reduction

- Preparation of a **broad-based fully participatory PRSP** as part of an effectively coordinated poverty reduction strategy, World Bank and IFAD Board endorsement of the PRSP and track record of successful implementation for at least one year.

- Enhancement of the **economic and social conditions of the poor** in order to reduce the share of the population below the poverty line to 40%.

- .Improvement of access and survival rates in primary and secondary education so as to:
    - raise gross enrolment rate of primary education to 99%;
    - increase the share of girls in total primary enrolment to 49%;
    - augment the gross enrolment rate of lower secondary education to 29%; and
    - improve the survival rate at the entrance of the fifth grade in primary education to 67%.

- Improvement of health status and enlarged access to quality health care and nutrition by:
    - setting up a central procurement facility for essential drugs and contraceptives;
    - increasing child vaccination rate to 70%;
    - maintaining the HIV prevalence rate at the level of 1998 (less than 1.2% HIV-positive among blood donors).

MOZAMBIQUE

A. CONDITIONS FOR FLOATING COMPLETION POINT

1. To reach the completion point, Mozambique will need to have (a) completed a full PRSP, endorsed by the Boards of IDA and IFAD; (b) continued to be in observance of the programme supported by the Fund under the PRGF, and (c) made satisfactory progress in its programme of key policy measures, as indicated below. In monitoring the latter, particular attention will be paid to strengthening the tracking of budgetary resources for poverty reduction, to further develop strategies and budgetary allocations in the health and education sectors and the national AIDS programme , and to achieve progress on improving the key social indicators in the HIPC Second Decision Point Document. When performance is assessed, due consideration will be given to the impact of the floods. Based on their plans for completing a full PRSP, the authorities expect that the completion point could be reached in about one year's time.

B. KEY POLICY MEASURES FOR 2000

2. The Government is committed to implementing the following key measures during 2000:

(a) Poverty Reduction Strategy

- completion of regional poverty profiles; and
- completion of a reformulated three-year policy matrix, and macroeconomic framework underpinning the poverty reduction strategy.

(b) Social Development

- development and approval of a new health sector strategic plan;
- implementation of the national multisectoral strategic plan on HIV/AIDS; and
- increase of current health and education expenditures as a share of total current expenditure.

(c) Public Sector Reform

- Publication of quarterly budget execution reports including a sectoral classification of expenditures;
- review of system of tax and customs exemptions;
- development of strategic plan for public sector reform, including a functional review of ministries; and
- development of policy regarding remaining public enterprises and companies with majority public ownership.

(d) Legal and Regulatory Framework

- adoption of a strategic plan for the justice system;
- draft new commercial code, covering company and contract law; and
- adoption of regulations for private sector involvement in the telecommunications and energy sectors.

THE UNITED REPUBLIC OF TANZANIA

POLICY REFORMS FOR THE FLOATING COMPLETION POINT

A. MACROECONOMIC

1. Maintain a **stable macroeconomic environment**, as evidenced by satisfactory performance under a programme supported by an arrangement under the PRGF.

B. STRUCTURAL

2. **Governance**. Adoption, publication and dissemination of the national action plan for the control of corruption, including dissemination to all district authorities, implementation of workshops with district authorities and civil society, and adoption of sector-specific anti-corruption plans for tax administration, national tender system, the judiciary and works.

3. **Government financial management**. Submission to parliament of the public finance management bill and public audit bill. Full implementation of the integrated financial management system (IFMS), including all budgetary votes and tax and non-tax revenues, and recording of all expenditure commitments, payments and arrears.

4. **Tax reform**. Substantial completion of the remaining tax reform agenda, through: application of VAT on petroleum products and consolidation of all other taxes on them; repeal of import-specific partial remissions on customs duties, and abstention from imposing additional minimum dutiable values, basing existing ones on international prices (except for sugar); harmonization of investment incentives; reduction in scope of exemptions; reduction in the number of excise taxes from 52 to 6; abolition of the withholding tax on goods and services; starting operation of a unified tax appeals system; and the establishment of a more efficient duty drawback system based on technical assistance recommendations.

5. **Improvement of the business environment**. Establish an effective service centre for investors; issuance of land regulations ensuring that land can be used as collateral for commercial transactions.

6. **Improvement of utility performance**. Signing of concession agreement assigning assets of public sector enterprises to private management companies; initiation of the process for unbundling public sector enterprises into autonomous commercial entities by appointing advisers; and adoption by the Government of the framework for the establishment of regulatory authorities for the utilities.

C. POVERTY REDUCTION

7. Preparation of the **PRSP** through a participatory process; first annual progress report on implementation of the PRSP. Improvement of the **poverty database and monitoring capacity** by implementing a household budget survey and the establishment of poverty lines and indicators based thereon; approval of the institutional set-up and a monitoring system for tracking changes in income poverty, social indicators, and community needs. Strengthened capacity in the Vice-President's Office and the national bureau of statistics to collect and analyse poverty data. Adoption of a Medium Term Expenditure Framework (MTEF) and provision of allocations in the budget for 2000/01 in line with poverty reduction objectives, including for a rationalization of higher education and the introduction of a revolving fund in all hospitals.

8. **Education**. Completion of mapping of schools covering 50% of all local authorities.

9. **Health**. Complete immunization of at least 75% of children under two years against measles and DPT (diphtheria, pertussis and tetanus). Implementation of the national campaign to combat HIV/AIDS, including completion of visits to 75% of all districts.

UGANDA

LINKING MACROECONOMIC POLICY CHOICES TO POVERTY OUTCOMES

A. CONSULTATION PROCESS

1. In June 1997, Uganda launched the Poverty Eradication Action Plan (PEAP), following a national consultation process involving a cross-section of stakeholders (central and local government, civil society and private sector). The PEAP provides national priorities for poverty reduction and guides sector policies.

2. A poverty status report (PSR) is produced on a biannual basis to review the implementation of the PEAP. The 1999 PSR also incorporates data from the recent Uganda Participatory Poverty Assessment Project (UPPAP). The UPPAP directly consulted poor communities on their priorities, needs and perceptions of the quality of service delivery and government policies.

3. As a result of these extensive consultations, the level of government and civil society ownership of the PEAP is high.

B. POLICY CHOICES

(a) Poverty Eradication Action Plan

4. The PEAP presents a multidimensional analysis of poverty priorities. Examples of policy choices from the PEAP and UPPAP include the following:

- a larger weighting for the provision of domestic water in budgets at central and local levels as a result of the communities' identifying access to clean water as a priority;
- inclusion of the constraints and priorities expressed by primary producers in the design of the National Plan for the Modernization of Agriculture; and
- a focus on security (individual, household, community and regional) and governance as key components for reducing poverty.

(b) Medium-term Budget Framework (MTBF)

5. The MTBF was introduced in 1994/95 as the vehicle by which medium-term budget priorities are formulated. The Government has utilized the MTBF since 1997/98 to better align spending priorities with the PEAP while ensuring medium-term financial stability and to provide for broader participation in the development of spending choices. Under the MTBF, line ministries are provided global budgetary ceilings on which to base their sectoral allocations. Since 1997/98, sectoral working groups, which are set up to develop sectoral priorities within the envisioned spending limits, have included participation from donors and NGOs, in addition to the Ministry of Finance and line ministries.

6. For the first time, civil society is involved in the dialogue on priorities and spending commitments.

7. To better reflect district poverty priorities and to bring local governments into the medium-term expenditure process, local government officials also prepare medium-term expenditure plans.

8. This process feeds into the budget framework paper and annual budgets.

(c) Poverty Action Fund (PAF*)*

9. The government established a Poverty Action Fund to enhance transparency and monitoring of the HIPC Initiative and other donor resources for expenditure programmes focused on poverty.

10. The PAF has four critical features: it is fully integrated into the government's budget; 5% of its resources are allocated to improve the accountability of PAF programmes; PAF programmes are outcome-oriented; and expenditure, project implementation and outcomes are reviewed on a quarterly basis with donors and representatives of civil society.

(d) Institutional Changes

11. Institutional changes include the increased role of districts in the development, selection and implementation of the PEAP; strengthening of the partnership between government and civil society; and the creation of a more open political environment where previously sensitive issues (e.g., land ownership, women's empowerment, security, corruption and governance) are now part of the policy dialogue.

C. POLICY IMPLEMENTATION

(a) Decentralization of Services

12. Recent UPPAP findings demonstrate major differences in the poverty profile among districts. As a result, policy-makers recognize the need for flexibility in determining priorities and budgets of different districts.

13. Decentralization helped expedite the implementation of equalization grants to enable districts to meet locally identified poverty priorities, and the need for greater flexibility in the design of conditional grants was recognized.

(b) District Participatory Planning

14. Initially, the UPPAP will work directly with ten districts to strengthen their capacity to consult poor communities in the areas of district planning and budgeting.

(c) Monitoring Intermediate Targets and Policy Outcomes

15. A transparent budget process with multiple channels for accountability (local constituencies, such as local authorities, press, community groups, NGOs and donors) is being developed. To increase the transparency in decentralized expenditure management of the PAF, advertisements are placed in the press indicating amounts disbursed to each district. In the education sector, budget allocations for schools are posted on some school notice boards. Civil society (NGOs, district officials, parliamentarians and media) meets quarterly with central government officials to discuss delivery against budget allocations.

16. In addition, the Poverty Monitoring Unit integrates annual household surveys, conducted by the Uganda Bureau of Statistics, with other data sources (e.g., participatory analysis, sector surveys, and line ministry data sources) to ensure that poverty data and perceptions of the poor continually influence policy.

ANNEX X

PRINCIPAL OUTSTANDING FOR HIPCs, AS OF 31 DECEMBER 1999

		SDR Principal Outstanding Dec-99	SDR* Arrears 31-May-00	SDR Total due	SDR Total Debt Processed Enh. HIPC	SDR Grand Total
1	Angola	2 946 038	8 333	2 954 371		2 954 371
2	Benin	28 749 677		28 749 677		28 749 677
3	Bolivia	–		0	32 610 471	32 610 471
4	Burkina Faso	10 941 712		10 941 712	10 941 712	21 883 423
5	Burundi	14 579 207		14 579 207		14 579 207
6	Cameroon	11 435 128	2 290 874	13 726 003		13 726 003
7	Central African Republic	20 436 415	260 602	20 697 018		20 697 018
8	Chad	6 906 214		6 906 214		6 906 214
9	Congo, D. R.	2 655 762	4 753 716	7 409 478		7 409 478
10	Congo	18 147 432	2 057 545	20 204 977		20 204 977
11	Côte d'Ivoire	2 540 776		2 540 776		2 540 776
12	Equatorial Guinea	5 579 090	43 181	5 622 271		5 622 271
13	Ethiopia	44 608 796		44 608 796		44 608 796
14	Ghana	*	231 815	*	*	*
15	Guinea	32 341 193		32 341 193		32 341 193
16	Guinea-Bissau	6 622 665	693 171	7 315 837		7 315 837
17	Guyana	2 798 013		2 798 013		2 798 013
18	Honduras	13 825 691		13 825 691		13 825 691
19	Kenya	22 260 183		22 260 183		22 260 183
20	Laos	*	*	*	*	*
21	Liberia	10 179 774	10 487 720	20 667 494		20 667 494
22	Madagascar	32 089 844		32 089 844		32 089 844
23	Malawi	36 699 035	33 333	36 732 368		36 732 368
24	Mali	36 200 282		36 200 282		36 200 282
25	Mauritania	–	293 935	293 935	34 912 948	35 206 883
26	Mozambique	–		0	32 271 650	32 271 650
27	Myanmar	0		0		0
28	Nicaragua	15 990 134		15 990 134		15 990 134
29	Niger	23 030 049	231 057	23 261 106		23 261 106
30	Nigeria	19 666 467		19 666 467		19 666 467
31	Rwanda	23 207 979	138 634	23 346 614		23 346 614
32	Sao and Principe	4 863 111	45 454	4 908 565		4 908 565
33	Senegal	27 794 101		27 794 101		27 794 101
34	Sierra Leone	18 892 148	1 268 163	20 160 311		20 160 311
35	Somalia	17 298 566	6 735 504	24 034 070		24 034 070
36	Sudan	71 048 190		71 048 190		71 048 190
37	United Rep. of Tanzania	–		0	49 530 777	49 530 777
38	Togo	14 121 672		14 121 672		14 121 672
39	Uganda	–		0	50 181 004	50 181 004
40	Viet Nam	15 404 736		15 404 736		15 404 736
41	Yemen	62 580 295		62 580 295		62 580 295
42	Zambia	43 099 128	23 484	43 122 613		43 122 613
	Total	**719 539 504**	**29 596 521**	**748 904 211**	**210 448 562**	**959 352 773**
	Percentage of Grand Total			**78**	**22**	**100**

* 1 SDR = USD 1.32002