DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

DC/2000-18

September 8, 2000

Heavily Indebted Poor Countries (HIPC) Initiative and Poverty Reduction Strategy Papers (PRSP)

A Joint Memorandum from the Managing Director of the IMF and the President of the World Bank and Reports on Progress in Implementation

Attached are a Joint Memorandum from the Managing Director of the IMF and the President of the World Bank and Progress Reports on Implementation of the Heavily Indebted Poor Countries Initiative (HIPC) and Poverty Reduction Strategy Papers (PRSP). These joint Bank/Fund documents have been prepared as background for item 2.B of the Provisional Agenda for the September 25, 2000, meeting of the Development Committee and for a proposed joint session of the Development Committee and the International Monetary and Finance Committee (IMFC) scheduled for September 24, 2000. Ministers are also encouraged to address these subjects in their prepared statements.

THE WORLD BANK GROUP

INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

MEMORANDUM

DATE: September 7, 2000

TO: Members of the International Monetary and Financial Committee
Members of the Development Committee

SUBJECT: **Heavily Indebted Poor Countries Initiative and Poverty Reduction Strategy Papers—Progress Reports**

It is just a year since Ministers endorsed enhancements to the Heavily Indebted Poor Countries (HIPC) Initiative and proposals to link debt relief, as well as overall Bank and Fund concessional lending, more closely to comprehensive development strategies described in country-owned Poverty Reduction Strategy Papers (PRSPs). Initial Progress Reports were prepared for the Committees in April 2000. The attached reports summarize progress as of the September meetings of the Committees. We are doing everything possible to achieve speedy implementation of the HIPC Initiative and to make the PRSP approach a success. While there is no room for complacency, we believe that the ambitious program initiated a year ago is evolving effectively along the lines endorsed by Ministers. At the same time, we wish to draw Ministers' attention to a number of issues that have arisen in the course of early implementation—issues that require continued and concerted efforts to maintain and accelerate soundly-based momentum, not only on the part of IDA and the IMF, but also of the international community as a whole.

A. The HIPC Initiative

At the core of the enhanced HIPC Initiative was the determination to provide broader, faster, and deeper debt relief for qualifying countries. These objectives are being met, and the Initiative is already reducing the debt burdens of poor countries.

Progress to Date. Under the original HIPC Initiative seven[1] countries had reached their decision points and had assistance committed to them by September 1999; by mid-September 2000, six[2] of these will have been provided the assistance committed under these decisions. Total assistance committed to these countries amounted to about US$7 billion in debt service relief or about US$3.5 billion in NPV terms. Under the enhanced Initiative, debt relief packages amounting to a further US$10.5 billion or over US$6

[1] Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, Mali, Mozambique, and Uganda.
[2] All but Côte d'Ivoire.

billion in NPV terms have been approved for 10[3] countries, including additional assistance for the countries noted above, as of mid-September 2000. As a result, the total assistance approved so far to 12 [4] countries represents more than one-third of the estimated total debt relief of the entire HIPC Initiative and amounts to more than US$17 billion in savings over time or almost US$10 billion in NPV terms. For countries that have reached their decision points we estimate that, as a result of assistance under the HIPC Initiative from all creditors, on average after the completion point, total debt stock in NPV terms will be reduced by over 40 percent, debt service to exports ratios will fall to below 10 percent, and debt service to revenue ratios to below 12 percent. Taking assistance under the HIPC Initiative together with traditional debt relief mechanisms provided by Paris Club and other bilateral and commercial creditors and unilateral debt cancellations by creditors over and above HIPC Initiative relief, the debt of these countries will ultimately be reduced by about two thirds.

Initiatives to Accelerate Implementation. We are continuing to work in partnership with governments, other creditors, and donors towards the goal of bringing countries as quickly as possible to their decision points within a framework of sound policies and a clear focus on poverty reduction. We have committed ourselves and our staffs to do everything possible to bring 20 countries to their decision points by the end of 2000. To this end we have taken, and the Executive Boards have endorsed, a series of actions including: (i) ensuring that the policy requirements for reaching the decision point are those essential to the success of countries' poverty reduction and growth strategies; (ii) maintaining a flexible approach with respect to track record requirements, so that countries whose economic performance is broadly on track can be brought expeditiously to their decision points; (iii) continuing to stress the principle that I-PRSPs be flexible and easy to prepare, so as not to hold up the availability of HIPC debt relief or concessional assistance; and (iv) actively using the Joint Implementation Committee to monitor progress, accelerate it wherever possible, and identify and help resolve any problems in Bank-Fund collaboration.

An important innovation under the enhanced Initiative was to accelerate the availability of debt relief through interim assistance beginning immediately at the decision point. All countries that have reached their decision points under the enhanced Initiative are now receiving cash flow assistance under the Initiative.

A second major innovation under the enhanced Initiative was the adoption of a "floating completion point". Floating completion points have eliminated the fixed three-year period from the decision point and instead have linked irrevocable debt relief to developing and implementing a PRSP, maintaining macroeconomic stability, and undertaking key reforms. The new arrangements strengthen countries' ownership of the debt relief timetable and support the sustained implementation of reforms, while making it possible to accelerate the completion point. For the decision point cases reviewed this year, this approach could reduce the interim period to around one to two years. Looking beyond 2000, the sustained implementation of national poverty reduction strategies and

[3] Benin, Bolivia, Burkina Faso, Honduras, Mali, Mauritania, Mozambique, Senegal, Tanzania, and Uganda.
[4] Countries in footnote 3 and Côte d'Ivoire and Guyana.

reforms between the decision point and completion point will be critical to the successful implementation of the Initiative, given the irrevocable nature of debt relief at the completion point. Thus, we shall continue to emphasize the crucial links between PRSPs and completion point conditionality.

Finally, there are a few countries that have not yet met the entry requirement for the HIPC Initiative; many of them are troubled by conflict, civil unrest, governance problems or macroeconomic instability. For the moment, the international community must use other instruments to help these countries help themselves. Nevertheless, consistent with the goal of broadening the Initiative, the Boards have supported extension for two years of the "sunset clause"– which is intended to give HIPCs that had not yet adopted adjustment programs supported by IDA and the IMF an incentive to do so by end-2002.

These actions underpin the commitment of our two institutions to faster debt relief. We are determined to bring all countries that have demonstrated that they can make effective use of debt relief for poverty reduction to decision points in 2000. But we must also recognize that a number of countries suffer from conflicts—both external and internal—and serious problems of governance and corruption. For such countries, there is no guarantee that debt relief would be well used. In these countries, in particular the timetable of implementation of the HIPC Initiative is not under Bank/Fund control. We must all work together to make sure that all eligible countries can benefit from debt relief at the earliest possible point when they can put in place mechanisms for its effective and accountable use, and to help countries reach that point. The ultimate test of the success of the Initiative will remain how effectively debt relief contributes towards poverty reduction.

Financing the enhanced HIPC Initiative. Positive developments to date and the initiatives being taken to accelerate implementation risk being undermined if further rapid progress is not made on financing. Total costs for the Initiative are now estimated at US$28.5 billion in end-1999 NPV terms—a slight increase compared to the end-1999 costing. The breakdown between bilateral and multilateral creditors has remained roughly even. Paris Club members account for most of bilateral creditor costs (US$11 billion in NPV terms), and IDA, the IMF, AfDB, and IaDB account for the bulk of multilateral creditor costs (in NPV, US$6.2, $2.2, $2.4, and $1.2 billion, respectively). Commitments from bilateral creditors have mostly come from Paris Club creditors (many of which have announced bilateral debt relief beyond their assistance under the HIPC Initiative). The staffs have been working on a case-by-case basis with non-Paris Club official creditors to discuss their participation, recognizing the difficulties some of them face—especially those that themselves qualify for assistance under the Initiative.

Meanwhile, there has been steady progress in securing confirmation of participation from multilateral creditors. In late June the African Development Fund's Deputies agreed on the financing for its participation in the HIPC Initiative for the near term countries. A financing framework has been agreed for the Inter-American Development Bank, but donor pledges remain to be secured, holding up the release of

IMF interim assistance to Honduras. More generally, shortfalls in resources could emerge as soon as late 2000. For example, depending on progress with individual country cases, and consistent with the objectives of the overall funding package for the interim PRGF and the Fund's contribution to the HIPC Initiative, the IMF would need to consider carefully whether to continue to provide debt relief under the HIPC Initiative beyond late 2000 in the absence of the release of the remainder of the investment income on the profits from gold transactions. Additional funding is also required for MDBs other than IDA, a funding need that will become particularly acute as the decision and completion points for countries with large exposure to the IaDB and AfDB are reached. IDA itself will require donor funding beginning around 2005. The Executive Boards of IDA and the IMF discussed the costing and financing issue at meetings on September 5, and called on all creditors to meet their obligations under the Initiative as expeditiously as possible, and to provide the additional financing needed to ensure full implementation of the HIPC Initiative.

B. The PRSP Process

In September 1999, the Development and Interim Committees endorsed a new framework for Bank and Fund efforts to support our low income members. Under this approach, building on the principles of the Comprehensive Development Framework (CDF), nationally-owned, participatory poverty reduction strategies (PRSs)—embodied in Poverty Reduction Strategy Papers (PRSPs)—form the basis for Bank and Fund concessional lending and for debt relief under the enhanced HIPC Initiative. Since the Boards' discussions of the first interim PRSP (I-PRSP) in January 2000, momentum has been building steadily. By mid-September, 15 poverty reduction strategy papers had been considered by the Boards—13 I-PRSPs and two full PRSPs. Several other countries have either prepared I-PRSPs or are in advanced stages of drafting them. While we have a relatively small sample of country experiences to draw on, there have been a number of positive developments, and some emerging areas of concern.

Positive experience with early I-PRSPs and full PRSPs. Countries have responded favorably to the invitation to prepare nationally owned poverty reduction strategy documents. This favorable response includes in many cases: providing information that has substantially exceeded the minimum requirements for I-PRSPs; managing preparatory work at very high levels of political authority; and a much greater degree of participation in the preparatory process than had been envisaged for I-PRSPs. Countries have drawn on their own prior experience with poverty reduction programs in preparing I-PRSPs and full PRSPs, and have identified as priorities for poverty reduction not only expected areas (such as broad-based growth, priority attention to social sectors, provision of public services to the poor, and a strong focus on rural development) but also areas such as governance, anti-corruption, transparency and accountability. In addition, several countries have linked their priorities explicitly to the International Development Goals, and have highlighted special efforts to assist disadvantaged groups (notably women).

Areas of concern. At the same time, country experience to date has highlighted some problems countries are facing as they move from preparing I-PRSPs to full PRSPs. For example, some I-PRSP countries and both of the countries that have prepared full PRSPs have relatively good and up-to-date poverty data. Others, however, have had to rely on out-of-date or limited information. In some cases, multilateral and bilateral development partners are involved in supporting countries' data upgrading efforts. Countries also have limited institutional and analytical capacity to prepare full PRSPs. While I-PRSPs have outlined the participatory processes countries intend to use in preparing full PRSPs, the depth and quality of these plans have varied (a point noted by the Boards in considering country documentation). In particular proposed participatory processes will need to deal with such issues as the capacity of civil society to participate meaningfully in strategy preparation, how best to ensure that the views of the poor themselves are fully taken into account, and the need to ensure that broad-based participation does not undermine national parliaments and existing democratic processes. The transition to full PRSPs is likely to present other problems including effective costing of inputs and outcomes; tracking poverty-related public expenditure; and integrating poverty reduction strategies into a consistent macroeconomic framework.

Meeting the Challenges of Implementation. Our overall assessment is one of encouraging early progress, but also of emerging challenges in implementation. In large part this reflects tensions that were inherent in the approach we all adopted a year ago: first, the tension between accelerating debt relief and maintaining the pace of IDA and IMF concessional assistance, while at the same time ensuring that HIPC resources and concessional financing are linked to country-owned strategies for sustainable poverty reduction; and second, the tension between country ownership and the requirement on the part of IDA and the IMF to assess whether the content of country strategies provides an adequate basis for the institutions' concessional lending and debt relief. All the actors involved in the process—countries, IDA and the IMF, and other development partners — face a dilemma: the faster we all wish the provision of debt relief and concessional assistance to proceed, the greater the risk that the resources will not be effectively used for poverty reduction; the more assurances sought (in terms of strategy, content and process, and implementation and monitoring), the greater the difficulty of early delivery and of securing country ownership. Ultimately the pace at which our institutions can move in the directions we all desire reflects the nature of the approach endorsed by the international community and the pace at which countries themselves can work in accordance with this approach.

We share the concerns of countries and development partners about the need to move forward as quickly as possible with debt relief and to sustain the flow of concessional assistance. At the same time, the international community has emphasized the importance of securing broad-based country ownership of the associated poverty reduction strategies and reasonable assurances that the resources provided by debt relief and concessional assistance will be well used for poverty reduction. The introduction of I-PRSPs (preparation of which does not require prior participatory processes) and interim assistance under the HIPC Initiative are proving to be helpful. Still, the inherent challenge remains, and will emerge more strongly as countries move to full PRSPs, which are expected to be based on extensive participatory processes. Development partners, including our own two institutions, can make a difference by providing technical assistance to strengthen both strategy formulation and participation. But further analytical work is needed too, in particular on the links between growth and poverty. The Bank and Fund are intensifying their research efforts in this area. Countries have also sought extra guidance on the expected core content of PRSPs and the participatory processes to be used in preparing them; the staffs are working on new guidance in these areas.

Reflecting the concerns noted above, some countries and the Executive Boards in some cases have suggested that the originally envisaged one-year interval between discussion of an I-PRSP and completion of a full PRSP may be too short. At their meetings on September 5, the Boards supported a recommendation from the managements whereby countries unable to complete a full PRSP within a year of their initial I-PRSP could provide a progress report, accompanied by an updated Joint Staff Assessment, as a basis for obtaining continued access to concessional assistance and, where applicable, interim debt relief.

Ownership versus "assessment" is a particularly difficult issue. The process envisaged a year ago properly emphasized the need for country ownership of strategies; the concept that there could be no single blueprint for such strategies; and that home-grown approaches to poverty reduction, based on countries' own unique circumstances, experience and capacities, were to be encouraged. The staffs (in Joint Staff Assessments) and the Executive Boards of IDA and the IMF (in discussions of country documents and staff assessments), however, were expected to take a view about the appropriateness of a country's PRSP as a basis for debt relief and IDA and IMF concessional assistance. In addition the fiduciary framework underpinning concessional assistance considered desirable by the international community (including our own institutions) has tended to become stronger. Both countries and development partners have drawn attention to the implicit conflict between these two concepts. Yet, as the PRSP process has evolved, there has been a tendency on the part of development partners, including members of the NGO community, simultaneously to express concern (which we share) about ensuring genuine country ownership, but also to propose specific areas of policy that country strategies should cover.

Both our institutions are doing everything we can to respond to some of these concerns, for example by offering guidance that does not breach the principle of ownership in the context of joint missions to discuss strategy formulation with governments; through the development of a "PRSP Sourcebook" that offers information about issues and best practice with respect to aspects of poverty reduction, but does not propose "one size fits all" prescriptions; and through outreach and learning events. We are also reviewing our own procedures in order to streamline conditionalities and strengthen the link between PRSPs and the IDA assistance program and instruments (including through the use of a new Poverty Reduction Support Credit).

C. Conclusion

Frankness about core implementation issues should not blind us to what has been achieved in a relatively short space of time. The enhanced HIPC Initiative has begun to deliver broader, faster and deeper debt relief, and we are fully committed to do everything within our control to accelerate its successful implementation. It is imperative to resolve quickly the remaining problems associated with HIPC financing, but this can be done, given appropriate commitment and political will. The PRSP approach is widely supported by countries and development partners, and is rapidly gaining momentum. Countries, IDA and the IMF are moving purposefully to put poverty reduction at the center of nationally owned strategies. Development partners are already supporting country efforts or planning to do so, and are discussing ways in which they can help further. This is a truly global and collaborative effort, and early progress has been substantial. It needs sustained support not only by accelerated debt relief but also by action in the developed world to reduce barriers to poor countries' exports and increase aid flows. The challenge of reducing poverty is formidable and will remain so for many years, but the global community is now primed to address it with better tools and a renewed and shared sense of purpose. We look forward with confidence to Ministers' support in building on the progress already achieved and addressing the issues that all of us—poor countries and official and non-governmental development partners—face as we move forward together.

James D. Wolfensohn Horst Köhler

THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND

The Enhanced Initiative for Heavily Indebted Poor Countries

Review of Implementation

Prepared by staffs of the World Bank and the International Monetary Fund

September 7, 2000

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I. INTRODUCTION

1. In April 2000, the Development and International Monetary and Financial Committees reviewed the status of the enhanced Heavily Indebted Poor Country (HIPC) Initiative, and urged all concerned to work for continued progress so that as many countries as possible can reach the decision point by the end of the year. The Committees also welcomed the establishment by the Bank and the Fund of a Joint Implementation Committee (JIC) to facilitate effective implementation of the enhanced HIPC Initiative and the new poverty reduction strategy approach. Finally, in noting that successful implementation of the Initiative will depend upon adequate financing, Ministers stressed that many multilateral institutions continued to require additional bilateral support, and urged donors to take the steps necessary to fulfill earlier pledges of contributions to help meet those costs. The purpose of this paper is to take stock of progress since the April Meetings and to present the overall status of and outlook for the enhanced HIPC Initiative.

2. The paper is organized as follows: Section II discusses the progress made in implementing the enhanced HIPC framework. Section III presents an updated estimate of the cost of the Initiative and provides a comparison with previous estimates. Section IV provides an update on creditor participation and the financing of the Initiative. Section V assesses the experience with the floating completion point and reviews the sunset clause.

II. COUNTRY EXPERIENCE UNDER THE ENHANCED HIPC INITIATIVE

3. The enhanced HIPC Initiative adopted by the Boards of the Bank and the IMF in the fall of 1999 aimed at accelerating the delivery of HIPC Initiative assistance and linking debt relief more firmly and transparently to poverty reduction. At the same time, the enhancements more than doubled the amount of relief projected to be provided under the Initiative.[1]

4. The World Bank and the IMF have committed to renewed efforts in four areas necessary to achieve the goals outlined by the international community: moving forward expeditiously with country cases to progress toward the objective of having 20 countries reach their decision point under the enhanced HIPC framework by the end of calendar year

[1] See "*Modification to the Heavily Indebted Poor Countries (HIPC) Initiative*", IDA/SecM99-475, July 26, 1999 and (IMF reference); "*Heavily Indebted Poor Countries (HIPC) Initiative: Strengthening the Link between Debt Relief and Poverty Reduction*", IDA/SecM99-545, August 26, 1999 and (IMF reference); and "*HIPC Initiative – Progress Report*", DC99-30, September 23, 1999.

2000[2], providing support to countries in preparing Poverty Reduction Strategy Papers (PRSP), setting up mechanisms for targeting and tracking use of resources freed by the HIPC Initiative, and facilitating the financing for multilateral participation in the enhanced Initiative.

A. Broader Debt Relief

5. Under the original HIPC Initiative approved in 1996, seven countries reached their decision points and five additional countries had their debt situations reviewed.[3] Total assistance committed to these seven countries under the original framework was US$3.5 billion in net present value (NPV) terms. In the one year since the endorsement of the enhanced HIPC Initiative framework, enhanced HIPC relief packages have been endorsed for ten countries amounting to US$6.3 billion in NPV terms (see Tables 1 and 2).[4] Seven further cases had their debt situation reviewed under the enhanced HIPC Initiative.

6. The debt relief packages for countries that reached their decision points under the enhanced HIPC Initiative by early September 2000 represent about one-third of the entire HIPC Initiative. As of early September 2000:

- Ten countries will have reached their decision point and most benefit from assistance under the enhanced framework (Benin, Bolivia, Burkina Faso, Honduras, Mali, Mauritania, Mozambique, Senegal, Tanzania, and Uganda)[4]. Total debt service relief committed to these countries will amount to more than US$16 billion or US$9.2 billion in NPV terms. When combined with the two countries which had reached their decision points under the original framework (Côte d'Ivoire and Guyana), but have not yet been reassessed under the enhanced framework, total debt service relief committed under the HIPC Initiative will amount to US$17.4 billion or US$9.8 billion in NPV terms.

- Preliminary reviews under the enhanced framework will have been completed for seven countries (Cameroon, Chad, Guinea, Malawi, Nicaragua, Rwanda, and Zambia). Total debt service relief expected on a preliminary basis amounts to US$15 billion or US$8.3 billion in NPV terms for these countries. Two more countries were considered under the original framework (Ethiopia and Guinea-Bissau), and will be reassessed under the enhanced framework.

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[2] The ability of countries to reach their decision point depends on performance under reform programs and the pace at which countries are able to prepare plans to use the debt relief for poverty reduction and growth.

[3] Decision points were reached for Bolivia, Guyana, Mozambique, Uganda, Burkina Faso, Mali, and Côte d'Ivoire, and the first five of these also reached their completion points.

[4] Bolivia does not receive interim assistance (see footnotes 6 and 7).

7. Three countries do not require or wish to pursue relief under the enhanced HIPC Initiative: traditional debt relief mechanisms will be sufficient to reduce Yemen's debt burden to a sustainable level; Ghana, although eligible for assistance based on debt sustainability criteria, is not seeking assistance under the Initiative; and Lao P.D.R. has informed the Bank and the Fund that it will not seek assistance under the Initiative.

B. Faster Delivery

8. One of the key objectives of the enhancements was to accelerate the provision of debt relief. In this regard, the enhanced framework included two main changes to the original Initiative: first, the provision of interim assistance beginning at the decision point, and second, the adoption of a "floating completion point."

Interim assistance and the interim PRSP

9. The enhanced HIPC Initiative relies on two key instruments—an interim PRSP and interim relief—in order to help reconcile the objective of rapid delivery of debt relief with the need to ensure that resources released will truly contribute to effective and sustainable poverty reduction. The interim PRSP can serve as a basis for taking a country to a decision point within the enhanced HIPC process. In an interim PRSP, a government should convey its commitment to poverty reduction, indicate its overall strategic goals and programs to address the issue, and define an action plan that would eventually lead to the articulation and adoption of a PRSP in a participatory process. The companion PRSP paper discusses in greater detail the early experience with this process. The provision of interim assistance from the decision point enables countries to benefit from debt relief while still preparing a full PRSP and putting in place other policy measures and actions that may be required for reaching the completion point. Interim assistance effectively reduces the burden of debt service payments on HIPCs while they prepare a full PRSP so that this can be done with due care and diligence.

10. Under the enhanced Initiative all creditors are encouraged to provide some portion of their total assistance to each eligible country during the interim period. Interim assistance had been provided under the original Initiative by bilateral creditors in the Paris Club through flow reschedulings involving an NPV reduction of 80 percent (Lyon terms) on eligible debt. This interim assistance has now been topped-up by the Paris Club to 90 percent (or higher if needed) under Cologne terms.

11. The predominant method of delivering relief on IDA debt will be through debt service relief. IDA delivers debt service relief, beginning at the decision point, with the aim of delivering its full share of debt relief to a country within 20 years after the decision point. Within this overall 20-year objective, IDA would provide annually, relief of not less than 50 percent of the IDA debt service due on the amounts disbursed and outstanding at the reference year when enhanced HIPC assistance is calculated. This level of debt service forgiveness would apply during the interim period, with maximum interim relief equal to

one-third of the total NPV to be provided by IDA.[5] IDA is providing interim assistance to eight of the nine countries which had reached their decision points under the enhanced framework by end-July 2000.[6]

12. The IMF, subject to receipt of satisfactory financing assurances from other creditors, is committed to deliver interim assistance in the form of grants. These grants are paid into a country's account, administered by the IMF as Trustee, and used to help meet the country's debt service payments to the IMF. A country may receive as much as 20 percent of total IMF assistance (i.e., 20 percent of the total IMF share of relief for the country) each year during the interim period, up to the total annual debt service due to the IMF by that country. Interim assistance is not to exceed 60 percent of the overall IMF assistance. The IMF is currently providing interim relief to eight countries.[7]

13. The Central American Bank for Economic Integration, the European Union, the European Investment Bank, and OPEC Fund, are either providing or have indicated their willingness to provide interim assistance. In July, the African Development Bank agreed on its modalities for participation in the enhanced framework, including provision of interim relief. Other multilateral development banks (MDBs) have been considering modalities to participate in a similar fashion.

Floating completion point

14. The second modification to the original framework designed to accelerate delivery of debt relief was the adoption of floating completion points. This eliminated the original three-year interim period in favor of linking the completion point to the development and implementation of a PRSP, and the implementation of a set of key, pre-defined structural and social reforms. This places the timing of the completion point more clearly under the control of country authorities and enhances country-ownership of the reform program. Early indications suggest that this approach is helping to shorten the interim period. Section V provides a more extensive discussion of the early experience with floating completion points.[8]

[5] IDA also provided interim assistance to several countries under the original Initiative by providing grants in lieu of credits for individual IDA operations to eligible countries.

[6] Bolivia is not receiving interim relief from IDA since 100 percent of the IDA debt service falling due is already being covered under the original 1998 IDA HIPC debt relief package to Bolivia.

[7] Among the two countries without IMF interim assistance, Bolivia has not requested interim assistance in light of the front loading of assistance under the original Initiative. Interim assistance to Honduras will be provided once satisfactory financing assurances from multilateral and bilateral creditors are secured.

[8] See also the companion paper on PRSPs, for a more in depth discussion of timing issues related to full PRSPs.

15. Based on the assessment by authorities for each of the current decision point countries, the interim period is expected to average about 15 months. Due to their special nature, the interim period for retroactive cases is expected to average less than one year, with Uganda having reached its completion point within three months after its enhanced decision point. For the new cases that have reached their decision point under the enhanced framework (Honduras, Mauritania, Tanzania) the interim period is expected to be two and a half years or less.

16. It is important to recall that once countries reached their completion point under the original framework (Bolivia, Burkina Faso, Guyana, Mozambique, and Mali), they received the related debt relief irrevocably.[9] For these countries, only the enhanced portion of debt relief as committed under the enhanced HIPC framework will be subject to the floating completion point requirements to the extent that it is not delivered in the form of interim relief.

C. Deeper Debt Relief

17. Under the enhanced framework, the target sustainability ratios were lowered[10] to provide a greater cushion against unanticipated economic shocks to export earnings. This is intended to increase the probability of a permanent exit from unsustainable debt, and to significantly lower debt-service payments, freeing up resources to support poverty reduction efforts.

18. Based on an analysis of the first nine countries to reach their decision points under the enhanced framework (Benin, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Senegal, Tanzania, and Uganda), progress is being seen in each of these areas (see Table 3). The US$9 billion (NPV terms) in assistance committed to these nine countries under the HIPC Initiative is projected to reduce the total debt stock in NPV terms by an average of 43 percent, reflecting reductions ranging from 18 percent in the case of Senegal to 73 percent in the case of Mozambique (Chart 1).[11] This will reduce the average NPV of debt-to-exports

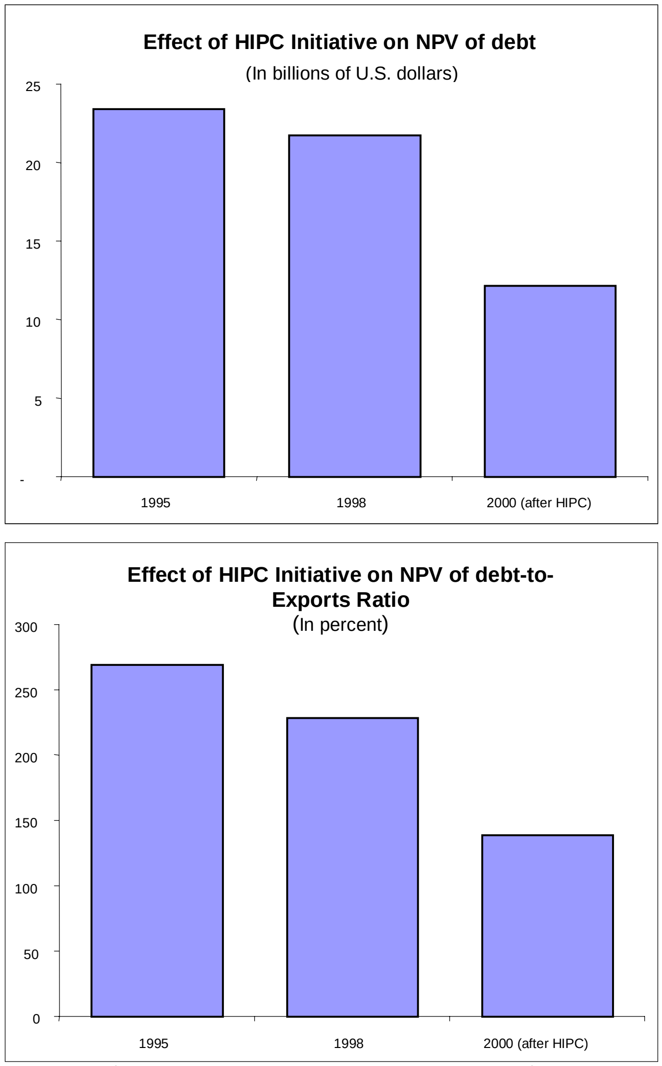
[9] For instance, Burkina Faso reached its completion point under the original framework in June 2000, receiving unconditional HIPC assistance of US$229 million. This relief, which will translate into debt service relief of US$400 million over time, is not subject to the floating completion point.

[10] The NPV of debt-to-exports target was reduced to 150 percent. Under the fiscal window, the NPV of debt-to-revenues target was reduced to 250 percent, with eligibility thresholds of 30 percent of exports-to-GDP and 15 percent of revenues-to-GDP.

[11] This is after traditional mechanisms from bilateral creditors, which already provides for 67 percent reduction on eligible bilateral and commercial debts.

Chart 1. HIPCs at the Decision Point 1/

(In billions of U.S. dollars and percent)



Sources: GDF for historical data; HIPC costings database for 2000.
1/ Nine countries that have reached their decision points under the enhanced HIPC Initiative as of August 1, 2000: Benin, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Senegal, Tanzania and Uganda.

ratio for these countries at the decision point by 41 percent to 138 percent.[12] Current projections show the average NPV of debt-to-exports ratio for these countries will drop below 100 percent after 2005.

[12] This is below the NPV of debt-to-exports target ratio of 150 percent, since it includes countries which are eligible under the fiscal openness criteria. For these countries the NPV of debt-to-revenues target of 250 percent could translate into a debt-to-exports target of less than 150 percent.

19. Moreover, there have been notable cash-flow benefits. HIPC Initiative assistance will reduce the average ratio of debt service-to-export revenue in these nine countries to below 10 percent, one-half the developing country average. This represents an average annual debt service reduction of approximately US$750 million over 2000–2005, equal on average among these nine countries to savings of roughly 1.4 percent of GDP.

20. In Table 4, a rough estimate is provided of what HIPC eligible countries can expect from HIPC debt relief combined with traditional debt relief mechanisms. In total, the 32 HIPCs can expect debt relief over time of about US$97 billion (about US$61 billion in NPV terms), with commitments in 2000 potentially reaching US$47 billion (about US$28 billion in NPV terms). This would reduce their debts by roughly two thirds.

Linking debt service relief to poverty reduction

21. A central objective of the enhanced framework endorsed last September was that countries would prepare credible, effective and monitorable poverty reduction strategies as the basis for access and use of extraordinary debt relief and other sources of concessional assistance provided by the Bank, the Fund, and other development partners. With regard to debt relief, institutional arrangements and procedures need to be developed to ensure that the savings from debt service are channeled towards programs linked to poverty reduction.[13]

22. Bank and Fund teams are collaborating to assess country capabilities and provide guidance to governments on mechanisms to track and report on poverty-related public spending in HIPCs. A preliminary assessment of early cases suggests that funds “saved” through debt relief should be seen as part of the overall budget and monitored through the country’s own public financial management system. While countries themselves should bear the primary responsibility for monitoring and reporting, Bank and Fund staffs’ work in this area should emphasize providing assistance to HIPCs to strengthen their own public expenditure management systems.

23. Over the longer term, this entails working to strengthening their entire financial management architecture. In the short-run, Bank and Fund staffs will assist in selected areas of public expenditure management, including working with those tools currently in place in each country for monitoring specific types of poverty-oriented spending. Some countries, such as Rwanda and Malawi, have a basic capacity to program, track and report on poverty-related recurrent public expenditures and the potential to relate these to social indicators. Other countries, such as Cameroon, are responding to significant shortcomings in their overall public expenditure systems by establishing special HIPC-arrangements and accounts

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[13] It is not always easy, however, to fully quantify for all creditors the short-term profile of debt relief as this depends to a large extent on how quickly individual creditors and the debtor country conclude their HIPC debt relief agreements, making tracking and planning of the use of this debt relief difficult. Creditors, including the Paris Club, the Bank and IMF, have responded to the individual circumstances of HIPCs by adjusting the profile of their debt relief to the perceived urgency of the country situation and its readiness to effectively deploy savings from debt relief to poverty reduction programs.

to identify and track spending on poverty related programs. In virtually all cases, technical assistance and extensive efforts at institution-building will continue to be needed.

Ensuring long-term debt sustainability

24. The weakening of commodity prices, notably the double digit declines since 1997 of the prices of cotton, coffee, cocoa, maize, sugar, and copper, combined with a sharp increase in oil prices over the past year, has adversely affected a large number of HIPCs that rely heavily on commodity exports and petroleum imports. As a result, about half of the 41 HIPCs are estimated to have suffered major terms of trade losses in 1999–2000 compared to 1997. These developments have created a difficult external environment for many HIPCs as they seek to maintain macroeconomic stability and establish track records for qualification under the enhanced HIPC Initiative. They also highlighted the difficulties and challenges many HIPCs are facing in achieving long-term debt sustainability, a key objective of the HIPC Initiative.

25. Debt relief delivered under the enhanced Initiative allows HIPCs to return to external debt sustainability. However, maintaining external debt at sustainable levels ultimately requires that HIPCs continue to pursue sound economic policies, in particular timely adjustment to any economic shocks that may weaken their debt service capacity, prudent debt management, and adequate financing on appropriate concessional terms. In the context of PRGF- and IDA-supported programs, many HIPCs have undertaken to accelerate structural and institutional reforms to improve the efficiency of domestic resource mobilization and utilization, thereby increasing their resilience to adverse external developments.

26. In view of the continuing large financing needs of many HIPCs, adherence to a policy on new borrowing that is consistent with long-term debt sustainability will play a particularly important role in preventing their external debt from rising again to an unsustainable level. Depending on each country's specific circumstances, such a policy may require a strict limit on, or even exclusion in some cases of any, new borrowing by the public sector on nonconcessional terms. It may also entail a need for restraint on borrowing on concessional terms, and renewed efforts to shift concessional external financing from loans to grants. Clearly, such a policy also entails action by donor agencies to provide financing for poverty expenditures and development projects.

D. Outlook for the Remainder of 2000

27. From the time the enhancements to the HIPC Initiative were endorsed in September 1999, the goal of the World Bank and IMF has been to have decision points under the new framework in place for as many countries and as quickly as possible and justified, subject to measures put in place to help ensure effective use of the resources released by debt relief. We are currently working toward having 20 countries reach their decision points by the end of 2000. The time line of upcoming HIPC country documents is detailed in Table 5. The implementation of this ambitious timetable will depend critically on circumstances within a number of countries, including the performance of reform programs and the assessments thereof by IDA and Fund staff and on their Boards.

28. In this context, the selectivity of the HIPC Initiative in favor of countries with relatively strong policy performance is relevant: countries that have reached their decision points earliest are those that have already established stronger (and longer) track records of policy performance. These track records have mostly included long periods with generally continuous support from IDA and the Fund. However, countries to be considered in the future will have more mixed track records, including periods of interruptions of reform, or reforms continuing in some areas accompanied by slowdowns or even reversals in other areas. More difficult judgements will need to be made in many of these upcoming cases regarding whether the appropriate conditions are in place for a decision point. Such judgements may need to weigh more explicitly the depth of reform along with the length of the track record, and balance the evaluation of macroeconomic, structural, and social reforms, as well as past reforms and the commitment to forward-looking reform programs.

29. More specifically, these considerations highlight the issues of flexibility on the required track record. First, under both the original and the enhanced frameworks, a three-year track record of policy performance under Fund- and Bank-supported programs is normally required for a country to reach its decision point and merit the support of creditors under the Initiative. The Boards of the Bank and Fund have begun to interpret this somewhat flexibly in the sense that intermittent periods of good policy performance under Fund-supported programs are being considered in the assessment of track record. This has been applied in particular to cases where there is a gap between the expiration of one PRGF arrangement and the approval of a successor arrangement. Second, when the HIPC Initiative was launched in 1996, the implementation of one annual PRGF arrangement immediately prior to the decision point was also a precondition for reaching a decision point.[14] This has since been implemented flexibly in the Board's consideration of a few preliminary decision point documents.[15] In some of the upcoming cases, early decision points may necessitate the elimination or a sharp compression of a track record requirement immediately preceding the decision point for countries that have not received Bank or Fund support for some time. While the link between debt relief and sound policy performance should clearly be maintained, these cases raise very difficult issues on the precise tradeoff between speed of implementation of debt relief and the quality of countries' policies and their results in reducing poverty. These issues will need to be considered carefully in the review of individual country cases.

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[14] The HIPC Debt Initiative—Elaboration of Key Features and Possible Procedural Steps, August 26, 1996. (SecM96-927 and EBS/96/135).

[15] During the Boards' discussion of the preliminary HIPC document for Ethiopia in late 1998, a majority of Directors supported a decision point after a six-month track record had been established. In the event, Fund- and Bank-support was interrupted during the war with Eritrea, and a decision point has not been reached yet. In the recent discussion on Zambia, the Boards have agreed on a three-month track record. Similarly, in the recent discussion on Malawi's preliminary HIPC document the Boards agreed that Malawi should proceed to the decision point as soon as possible. This implies no immediate performance under a new Fund arrangement before the decision point, albeit Malawi's macroeconomic policies since October 1999, when the last review of Malawi's now expired PRGF arrangement was completed, are in line with Bank and Fund recommendations.

III. Update on Costs of the Enhanced HIPC Initiative

30. This section presents estimates of the costs of the enhanced HIPC Initiative and updates the previous costing estimates undertaken in December 1999.[16] This costing analysis is based on the most recent country-specific information available. As will be discussed below, while the overall cost has increased somewhat compared to previous estimates, they remain broadly in the order of US$28 billion in 1999 NPV terms.

A. Sources, Assumptions and Caveats

31. This update of the December 1999 costing exercise takes into consideration the following factors:

- A total of 15 countries have presented HIPC documents to the Bank and Fund Boards with updated debt sustainability analyses (DSAs).
- Revisions to debt data and/or exports and revenue figures have been provided for fourteen countries that had their HIPC documents presented to the Boards.
- The timing of decision and completion points has been revised in light of actual developments thus far and the current outlook of country performance.
- Changes have taken place in the exchange rate and commercial interest reference rates (CIRRs) utilized for converting debt figures into U.S. dollar NPV terms.

32. The country coverage and other data issues are described in Box 1. Out of a group of 41 HIPCs,[17] costs have been estimated for 32 countries. Potential costs for two countries, Ghana and Lao P.D.R., have been excluded as they have indicated that they will not seek assistance under the HIPC Initiative. The latest DSA for Yemen has confirmed that the country has a sustainable debt burden. The debt levels of three other countries, Angola, Kenya, and Vietnam, are currently expected to be sustainable with debt relief under traditional mechanisms. As such, these four countries are not expected to require assistance under the HIPC Initiative, and no costs are assessed for these countries. Finally, as in all

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[16] See "*Heavily Indebted Poor Countries (HIPC) Initiative: Update on Costing the Enhanced HIPC Initiative*", IDA/SecM99-679, December 8, 1999 and EBS/99/220 (12/7/99).

[17] Equatorial Guinea was removed from the initial group of 41 HIPCs as it is no longer an IDA-only country. The Gambia has been added as the NPV of its external debt has been found to be unsustainable.

Box 1: Country Coverage, Data Sources, and Assumptions

Country coverage

- Country coverage for the costing analysis is based on 41 HIPCs: **Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Lao P.D.R., Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Yemen, Zambia.**

- From the original group of 41 HIPCs, **Equatorial Guinea** has been removed from the HIPC database as it has a GNP per capita of $1,500 and is no longer an IDA-only country. **The Gambia** has been added to the database as the NPV of its external debt has been found to be unsustainable.

- From the above list of 41 countries, **Ghana and Lao P.D.R.**, with unsustainable debt levels after traditional mechanisms, are excluded from the costing analysis as they have indicated that they will not seek assistance under the HIPC Initiative. A total of 39 countries are thus considered for the costing exercise.

- Based on currently available data, debt levels for **Yemen** were confirmed sustainable, and for **Angola, Kenya, and Vietnam,** are expected to be sustainable after the application of traditional debt relief mechanisms**. In addition, Liberia, Somalia, and Sudan**, are excluded due to the time it will take to resolve their protracted arrears with multilateral creditors, and weak databases. Hence the costing figures are reported for **32** countries.

- It is possible that the HIPC Initiative could extend eligibility to countries outside the group of 41 countries listed above, hence increasing the overall costs. However, for now, no additional countries have been added to the database. Recent staff assessments of the debt positions of **Haiti and Cambodia** have indicated that traditional debt relief mechanisms are sufficient to reduce their debt to sustainable levels.

Data sources

- HIPC documents have been presented to the Board for the following 15 countries since the last costings update: **Benin, Bolivia, Burkina Faso, Cameroon, Chad, Honduras, Malawi, Mauritania, Mozambique, Rwanda, Senegal, Tanzania, Uganda, Yemen, and Zambia**. For these countries, most of the debt has been reconciled between debtor and creditors.

- The following 14 countries have provided updated debt and exports/revenue data since the last costing exercise, and some will soon be presenting HIPC documents to the Board: **Côte d'Ivoire, Gambia, Guinea, Guinea-Bissau, Guyana, Kenya, Liberia, Madagascar, Mali, Nicaragua, Niger, São Tomé and Príncipe, Sudan, and Togo.**

- There are no data updates since the last costing exercise for the following 12 countries: **Angola, Burundi, Central African Republic, Democratic Republic of Congo, Republic of Congo, Ethiopia, Ghana, Lao P.D.R., Myanmar, Sierra Leone, Somalia, and Vietnam.**

- Countries for which DSAs used in the past costing exercise have been particularly weak or unavailable include **Democratic Republic of Congo, Liberia, Myanmar, and Somalia.**

Assumptions

- Calculations of total costs include costs under the original framework of the HIPC Initiative.

- Countries must first make full use of traditional debt relief mechanisms (involving a stock-of-debt operation providing a 67 percent NPV reduction on eligible debt from the Paris Club and comparable treatment from other non-multilateral creditors) to be eligible for debt relief under the HIPC Initiative. This has been assumed in the costing estimates for all countries.

- All countries that are potentially eligible for HIPC assistance are assumed to request such assistance, except for the two noted cases of Ghana and Lao P.D.R.

- In the previous costing exercise, retroactive countries were assumed to have decision points in 1999 and costs were expressed on that basis. For the current costing, the actual decision point date is utilized.

- The country-specific DSAs are based on macroeconomic assumptions regarding exports and fiscal revenues developed by Bank and Fund staffs in consultation with country authorities.

previous costing exercises, Liberia, Somalia, and Sudan were excluded from the cost exercise due to weak databases and the protracted time that will be required to resolve their large arrears problems.[18]

33. As in all earlier costing exercises, a number of caveats apply. The costing estimates need to be interpreted with caution in many cases given that loan data between creditors and debtor governments has not yet been fully reconciled, especially for countries that have yet to reach their decision points. Moreover, for countries with decision points expected after 2000, data are subject to a wide margin of uncertainty as these are based on current staff expectations of the timing of the decision point and on projections of indebtedness, exports and fiscal revenues. The staffs have aimed at providing a realistic estimate of the timing of decision points, but the actual timing will in large part be driven by a country's policy record and its progress in producing a PRSP or an interim PRSP. This costing exercise is not intended to prejudge the results of the loan-by-loan DSAs nor the Boards' decisions with respect to eligibility for assistance under the HIPC Initiative.

B. Results of Costing Update

34. Total costs for the HIPC Initiative are now estimated at US$28.6 billion in 1999 NPV terms (see Table 6), slightly above the previous cost estimate of US$28.2 billion. The breakdown of costs—which was previously estimated to be equally shared between bilateral and multilateral creditors—remains broadly unchanged.

35. The slight rise in estimated costs for bilateral creditors, from $14.1 billion to $14.6 billion in end-1999 NPV terms, reflects a US$0.9 billion rise in the combined costs of non-Paris Club official bilateral creditors and commercial creditors and a US$0.4 billion decline in the costs of Paris Club creditors. This revision reflects refinements in the data used in a number of upcoming decision point cases. With respect to multilateral creditors, cost estimates remain largely unchanged; detailed costs are shown in Table 7.

36. A breakdown of the costs for the near-term cases—i.e., the countries with decision points under the original framework and new country cases expected to reach their decision points before the end of 2000—indicates that about 65 percent of the cost, or US$18.3 billion, is expected to be attributable to the near-term cases (see Table 8). For these countries the Paris Club has the largest share of bilateral costs, with 72 percent of the total bilateral costs, followed by non-Paris Club official creditors (25 percent) and commercial creditors (3 percent) (Table 9). For comparison, on the basis of all countries expected to require HIPC assistance, Paris Club costs represent 75 percent of bilateral costs, non-Paris Club creditors 17 percent, and commercial creditors 8 percent (Table 6). Near-term countries are expected to start benefiting from interim relief during 2000 or early 2001.

[18] Liberia, Somalia, and Sudan all have protracted arrears to external creditors, including the IMF and the World Bank. Rough estimates for these three countries suggest costs in the order of US$8.7 billion in end-1999 terms.

37. Beginning with the December 1999 costing exercise, cost estimates have been disaggregated for MDBs in order to provide more accurate information to individual institutions. Staffs have also started to provide in individual country documents a detailed breakdown of bilateral costs. This information is now available for 20 countries that have presented HIPC documents to the Board. Tables 10 and 11 summarize this information and provide cost estimates for Paris Club and non-Paris Club official bilateral creditors by creditor country for (i) individual HIPCs that have reached their enhanced decision points, and (ii) an aggregate cost for those countries that are expected to reach their decision points in 2000. Within the Paris Club, France, Germany, Italy, Japan, and Russia carry the largest share of costs for the near-term HIPCs. For this same group of HIPCs, China, Costa Rica, Guatemala, and Kuwait are the largest non-Paris Club creditors. Relative to the size of their respective economies, debt relief costs are largest for Costa Rica, Guatemala, Honduras, and Trinidad and Tobago (Table 12).

IV. PARTICIPATION OF CREDITORS IN THE ENHANCED HIPC INITIATIVE

A. Participation of Official Bilateral Creditors

38. Actual commitments from bilateral creditors to provide the assistance required under the enhanced HIPC Initiative have been obtained so far largely from the Paris Club, with hardly any from other bilateral or commercial creditors. Executive Directors considered the participation of official bilateral creditors in April. This discussion concluded that the comprehensive participation of all creditors was critical for the HIPC Initiative to meet its objective of eliminating unsustainable debt burdens. Directors endorsed the current proportional approach to burden sharing as the basis for moving forward, and urged all bilateral creditors to contribute on comparable terms. It was recognized that some official bilateral creditors might have difficulties in meeting their share of the cost, in particular the problem of HIPC creditors that are themselves eligible for assistance under the Initiative. Most Directors considered that such cases should be dealt with on a case-by-case basis. The discussion focussed on working flexibly and creatively towards solutions, particularly where HIPC-eligible countries are creditors of other HIPC countries, while respecting the basic principles of the HIPC Initiative.

39. Since these discussions, the staffs have continued their contacts with non-Paris Club bilateral creditors to discuss their participation in general as well as in individual country cases. In order to share information at an early stage, meetings have been held with Executive Directors representing such non-Paris Club creditors, following the discussion of a preliminary HIPC document or a decision point, in order to clarify their expected cost share and seek preliminary indications of their willingness to participate. Staff have also sought to intensify consultations with individual creditor country authorities to seek ways of ensuring comprehensive participation while addressing the concerns of the creditor, and have met with some creditors to discuss these issues. For example, Bank staff visited Costa Rica in June with a set of illustrative scenarios that explored possible ways of providing debt relief to Nicaragua and Fund staff followed up in early August. Further follow-up meetings with creditors are planned during the forthcoming Annual Meetings.

40. Among Paris Club creditors, 18 countries have pledged debt relief beyond their assistance under the HIPC Initiative. The extent, coverage, and modalities of the additional debt relief differ among the various creditors (Table 13). Creditors that have pledged to offer 100 percent relief on all pre-cutoff date debt include Australia, Canada, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland, the U.K. and the U.S. In addition, several countries have pledged 100 percent debt relief on post-cutoff date debt as well (Australia, Canada, Norway, the U.K., and the U.S.). In most cases, the debt relief offered under these bilateral commitments is expected to be provided to debtor countries once they have reached their completion points, but Germany, Norway, the U.K. and the U.S. have offered to deliver this additional assistance from the decision point.

B. Participation and Financing of Multilateral Creditors

41. Since the Spring Meetings, there has been steady progress in securing confirmation of participation by multilateral creditors. As of end-August 2000, MDBs representing over 95 percent of the multilateral exposure to HIPCs have confirmed their participation in principle in the enhanced HIPC Initiative. In addition, most organizations have defined their modalities of providing debt relief, with the predominant modality being coverage of debt service of at least 50 percent of the amounts falling due. To further discuss MDB participation and financing, the Bank will host its next semi-annual meeting with MDBs and the Fund in October 2000.

42. With regard to financing **IDA debt relief**, it is expected that IBRD net income transfers to the World Bank component of the HIPC Trust Fund will permit the Trust Fund to reimburse IDA for the debt relief it is projected to provide up to 2005. Towards this end, IBRD has already allocated US$1,050 million from its net income and surplus to the HIPC Trust Fund. In August 2000, the Executive Directors recommended to the IBRD Board of Governors another transfer of US$250 million from fiscal year 2000 net income. This recommendation will be considered during the Annual Meetings in late September in Prague. Beginning around 2005 (the end of IDA13), donor funding will be needed to reimburse IDA for the forgone debt service on IDA credits—estimated at roughly US$500 million per annum, or about US$1.3 billion in IDA14 and US$1.6 billion in IDA15. In addition, donor contributions are being sought to help finance the cost of three countries (Cameroon, Côte d'Ivoire, and Honduras) that have material levels of outstanding IBRD debt for which IBRD net income transfers to the HIPC Trust Fund cannot be used. Total funding between now and 2003 needed to provide debt relief on IBRD debt is estimated at about $825 million. Several donors (including Australia, Italy, Netherlands, and New Zealand) have made specific pledges or contributions to the World Bank component of the HIPC Trust Fund to provide support for the debt relief efforts by the World Bank, and several others have indicated their intentions to do so. If adequate donor funding for this purpose is not available, this relief will be provided by IDA predominately in the form of refinancing through new IDA supplemental HIPC debt relief grants and credits. The total nominal funding gap for the World Bank over time has been estimated at close to $9 billion.

43. As regards the financing situation of the **IMF's** costs under the enhanced Initiative, bilateral contributions to the PRGF-HIPC Trust have increased somewhat since last May.

About 80 percent of pledged bilateral contributions have either been received or are being provided on the basis of an agreed schedule as of end-July, 2000.[19] To enable the Fund to continue providing its assistance under the HIPC Initiative beyond late 2000 depending on the progress in individual country cases, it is essential to secure the release of the remaining five-fourteenths of the investment income on the profits from gold sales and to make effective the pledged bilateral contributions that are still pending.[20]

44. In June 2000, a framework agreement was reached on steps to achieve the participation by the **Inter-American Development Bank** (**IaDB**) in the enhanced HIPC Initiative, with the institution contributing about US$800 million in NPV terms of its own resources. This framework also provides appropriate support for the participation of subregional MDBs in Latin America and the Caribbean in the Initiative. Under the financial framework agreed, the United States would contribute US$200 million to the debt relief efforts by these MDBs, Canada US$25 million, non-regional member countries US$200 million, and IDB borrowing member countries US$150 million. The agreement is contingent on these donor pledges, which remain to be secured.

45. At the end of June 2000, the Deputies of the African Development Fund (ADF) reached agreement on the global funding process of the enhanced Initiative for the **African Development Bank (AfDB) Group**. Subsequently, the AfDB Board of Directors decided to increase the AfDB's contribution of its own resources to US$370 million. It was agreed that about 80 percent of the debt service due would be covered by HIPC debt relief, with interim relief being capped at 40 percent of the share of total debt relief. At the decision point, the AfDB could make a commitment for the full interim relief and assurances by donors would be provided to fund the remaining debt relief by the completion point.

46. The **HIPC Trust Fund** has received bilateral donor pledges and contributions of close to US$2.6 billion as of end-July 2000. Table 14 details the donor specific pledges to the Trust Fund. Of this total, donors have paid in close to US$750 million to support debt relief to MDBs other than the World Bank or IMF. This amount includes a payment of US$227 million by the EU/EC.

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[19] PRGF Trust and PRGF-HIPC Trust—Update on Status of Operations (EBS/00/117, 6/23/00).

[20] To date, the Executive Board has authorized the transfer of nine-fourteenths of the investment income on the profits from gold transactions to be used for the benefit of the HIPC Initiative. The transfer of the remaining five-fourteenths will require a decision by the Executive Board with an 85 percent majority. Further legislation by the United States Congress is necessary for the Executive Director of the United States to support such a decision. Depending on progress with individual country cases, and consistent with the objectives of the overall funding package for the interim PRGF and the Fund's contribution to the HIPC Initiative, the IMF would need to consider carefully whether to continue to provide debt relief under the HIPC Initiative beyond late 2000 in the absence of the release of the remainder of the investment income on the profits from gold transactions.

47. Based on the recent developments in funding the Latin American MDBs, the AfDB Group as well as some tentative estimates for funding needs for several small African MDBs, staff estimate that about US$2.6 billion in NPV terms (about 48 percent) of the HIPC cost accruing to MDBs, excluding the World Bank and IMF, would need to be covered by donor support (see Table 15). The most immediate financing issue involves securing the financing called for under the HIPC financing framework developed by the IDB Governors in June which remains crucial to implementation of the Latin American cases. Comparing the financing needs for MDBs with the HIPC Trust Fund pledges (Table 16), it is important to keep in mind that the financial support needs are derived from the costing exercise which is done in NPV terms while the pledging is done in nominal terms. A significant portion of these donor pledges would be paid into the Trust Fund over time. Consequently, the NPV of these pledges will be lower than the nominal amount. The actual NPV value of the Trust Fund resources will depend on the timing of the receipt of this donor funding. As payments from some donors are likely to stretch out over the next three years or more, the NPV of the US$2.6 billion in existing donor pledges (excluding those for the World Bank and IMF) is estimated in the order of $2.1 billion. Therefore, additional funding will need to be raised to finance the US$2.6 billion in NPV terms, which is the estimated HIPC cost accruing to MDBs which would need to be covered by donor support. This will become particularly acute as the completion points of the large post-2000 countries are reached.

48. Looking to the future, donors have agreed that they should meet periodically to review the HIPC financing situation. Most recently, donor representatives took advantage of the IDA12 midterm review meeting in Lisbon in June 2000 to review and discuss the overall status of HIPC costs and financing for multilateral creditors, including IDA and IBRD. Next steps include: (i) a technical meeting currently scheduled to take place on the occasion of the ADF-8 midterm review meeting in November 2000, (by which time the decision-making process in the Inter-American Development Bank will most likely have reached completion), and (ii) a review of the overall HIPC financing situation analytically separate but back-to-back with IDA13 replenishment meetings (which are expected to start in the spring of 2001).

V. Review of Floating Completion Points and the Sunset Clause

A. Experience with Floating Completion Points

49. Floating completion points were introduced with the enhancements to the HIPC Initiative in the fall of 1999. The modalities as set out by the staffs [21] found broad support by the Boards.[22] This approach was expected to entail a country reaching its completion point when it had implemented a set of key, pre-defined social and structural reforms and maintained good macroeconomic performance. Speedy implementation of key reforms was expected to enable countries to shorten the interim period from the three years under the

[21] "*Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative*", EBS/99/138 (7/23/99) and IDA/SecM99-475 (7/26/99).

[22] Chairman's Summing Up, BUFF/99/101 of 8/9/99 and IDA/SecM99-504, August 3, 1999.

original HIPC framework.[23] The floating completion point was expected to be linked to the implementation of crucial building blocks underpinning durable growth, debt sustainability and poverty reduction. Floating completion points were seen as a way to help countries focus on the key reforms needed for sustainable development and poverty reduction. Yet it was recognized that it could be more challenging for the staffs together with country authorities to define the small number of key macroeconomic, structural and social reforms required for economic growth and poverty reduction.

50. The Boards welcomed floating completion points as they based the assessment of a country's performance on particular outcomes rather than the length of the track record. Floating completion points were expected to provide an incentive to HIPCs to implement reforms quickly and develop ownership over the timetable. Some Directors were concerned that the reforms to which floating completion points were tied might be more ambitious than under the original framework thereby leading to undesirable delays. Other Directors were concerned that the desire to deliver debt relief might undermine the need to ensure effective progress on policies and governance issues. Thus a need was seen to set clear priorities and avoid overloading the reform agenda. Other concerns included the difficulty in ensuring fair treatment across countries. In light of these concerns, Directors requested a review of floating completion points in one year.

51. All ten countries that have reached decision points under the enhanced Initiative so far, including seven retroactive cases, have the irrevocable release of HIPC Initiative assistance linked to floating conditions.[24] The range of policy areas covered by this conditionality has been broad and covers three general categories central to poverty reduction: social policies, structural reforms, and macroeconomic performance (see Annex I). All countries were required to maintain stable macroeconomic positions as evidenced by continued implementation of economic programs supported by the Fund and the Bank. There was also a strong and clear link between the completion points and the PRSP process, evident in the requirement that all countries have a PRSP, and, except for the transition arrangements agreed for the retroactive cases, one satisfactory annual progress report of implementation of the PRSP.

52. There was considerable variation in the structural and social sector measures, reflecting the particular priorities and needs of the countries concerned. While the early cases such as Uganda and Bolivia had fewer specific measures, the later cases typically comprised 4-6 such country-specific factors.

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[23] Conversely, if these targets were not met, the completion point would be delayed.

[24] Benin, Bolivia, Burkina Faso, Mali, Mozambique, Senegal, Uganda (all retroactive cases), and Honduras, Mauritania, and Tanzania.

Key structural reforms tied to the completion points are specified in seven cases. While these conditionalities cover a wide range of areas, reforms that feature prominently concern tax systems and governance. Tax reform measures focus on implementation of VAT and strengthening of tax administration (Mauritania, Mozambique, Senegal, and Tanzania). Governance reforms include steps to increase transparency and accountability of public financial management and adoption of action plans/strategy to reduce corruption and improve governance (Benin, Burkina Faso, Honduras, Mozambique, and Tanzania). Other areas include privatization, banking system restructuring, judicial reforms, land, and energy sector reform.

53. Given the multidimensional nature of social sector outputs, social sector conditions are not defined in a binary (yes/no) fashion. Rather, the documents specify a set of indicators and measures which allow a broad assessment of progress in poverty reduction. In **Uganda's** case, the only country so far to reach its completion point under the enhanced framework, the completion point measures were defined broadly as "overall progress" in poverty reduction. In other cases, conditionalities have been more detailed and country-specific: For **Mozambique**, the impact and damage of floods is an important factor in the assessment of social needs along with budgetary allocations on AIDS and other social programs. In the case of **Senegal**, completion point measures include educational reforms supported by IDA and specific health care targets (pre-natal care for pregnant women and prevention of endemic diseases). **Benin's** key measures include increased budgetary allocations to the health sector focussing on a national plan to fight AIDS, increased specified child immunization rates and eliminating school fees for all pupils in all rural areas. **Honduras**' completion point measures entail an increase in the number of schools with community participation and strengthening the basic health service for the poor. In the case of **Tanzania,** measures included an increase in the immunization against DPTs and a national campaign to raise the awareness on HIV/AIDS. For **Burkina Faso**, there was an important need to maintain a sufficient stock of generic drugs in the national drug company. In **Mauritania**, the completion point measures include the government's aim to reduce the share of the population below the poverty line to 40 percent, as well as a wide spectrum of health and education reforms.

54. The early experience shows that country authorities generally expect to meet the agreed conditions and reach their floating completion points within one to two years from their decision points, providing for a shortening of the interim period to less than three years (see Annex). In implementing the floating completion point, there is a considerable challenge in selecting a small number of elements from the numerous reforms needed to underpin sustainable growth and poverty reduction. Failing to do so would risk overloading the reform agenda and a lengthier interim period than expected. Therefore, efforts will continue to be made to limit floating completion point measures to a few (3–4) areas that are the most critical for poverty reduction and are, to the extent possible, monitorable.

B. Sunset Clause

56. Under the HIPC framework, the first milepost toward establishing a policy track record needed to qualify for HIPC debt relief is the so-called entry requirement.[25] The 1996 Program of Action stated that "the Initiative would be open to all HIPCs that pursue or adopt programs of adjustment and reform supported by the IMF and IDA in the next two years, after which the Initiative would be reviewed and a decision made whether it should be continued."[26] In 1998, the Boards reviewed the sunset clause and agreed to its extension to end-2000.[27]

57. Of the 41 HIPCs, 34 have met the entry requirement (Table 2). However, seven countries have not yet done so: Angola, Burundi, Democratic Republic of Congo, Liberia, Myanmar, Somalia, and Sudan. Except Angola, all these countries are expected to require HIPC debt relief. An accurate assessment of their debt situation is impossible for most of these cases since most of them are or have been suffering from conflicts. Moreover, most of them have weak economic databases and protracted arrears with international creditors, including the Bank and the Fund.

58. The original intention of the sunset clause was that the HIPC Initiative would not be a permanent facility. The sunset clause was meant to give countries an incentive to adopt IDA- and IMF-supported adjustment programs. However, the experience over the last four years has shown that only two countries, São Tomé and Príncipe and the Central African Republic, actually started a program supported by the Bank and Fund.

59. Based on a preliminary analysis of those countries that have yet to pass the entry requirement, it is very likely that they will need comprehensive debt relief, including from multilateral institutions. Therefore, the Boards have agreed to extend the sunset clause by another two years.

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[25] Staffs have interpreted this to include any country which had an PRGF/ESAF arrangement approved or midterm review completed starting one year prior to the inception of the Initiative (1995), together with an ongoing Policy Framework Paper (PFP), a full or an interim PRSP, and/or adjustment operations supported by IDA, as having met the entry requirement. In this context, the country would need to pass the entry requirement only once.

[26] *"A Program for Action to Resolve the Debt Problems of the Heavily Indebted Poor Countries—Report of the Managing Director of the IMF and President of the World Bank to the Interim and Development Committees,"* September 20, 1996, page 2 (EBS/96/152, Revision 1 and SecM96-975/1).

[27] See *"The Initiative for Heavily Indebted Poor Countries: Review and Outlook"*, IDA/SecM98-480 and EBS/98/152, August 25, 1998; and *"HIPC Initiative: A Progress Report"*, DC/98-22, September 29, 1998.

Floating Completion Points: Summary of Country-Specific Requirements

Country	Status 1/	Conditionality for Reaching Floating Completion Points			Expected Timing of eCP
		Macroeconomic performance	Structural reforms	Social policies and additional Poverty Reduction requirements	
Benin	Retroactive; eDP in 7/00	Continued implementation of the WB/IMF-supported program	• Adoption of a strategy to privatize SONAPRA after its monopsony is abolished • Establishment of a medium-term expenditure allocation program • Production of treasury balance monthly	• Preparation of PRSP • Adoption of an anticorruption strategy • Increasing allocations from the internal budget for basic health service including prevention of HIV/AIDS by allocating CFAF 500 million in 2001 • Immunization of children below one year to 85 percent and at least 75 percent in each region; similar ratios for measles are 80 and 70 percent respectively • Elimination of school fees for all pupils in rural schools and provide grants to schools for loss of revenue; provide grants to hire teachers to fill school vacancies	mid-2001
Bolivia	Retroactive; oDP in 9/97; oCP in 9/98; eDP in 2/00	Continued implementation of the WB/IMF-supported program		• Preparation of PRSP • Completion of National Dialogue with civil society, expected to be completed in August 2000 • Adoption of fully defined anti-poverty strategy and comprehensive set of indicators to monitor poverty reduction • Acceptable progress in reducing poverty	early 2001

Country	Status 1/	Conditionality for Reaching Floating Completion Points			Expected Timing of eCP
		Macroeconomic performance	Structural reforms	Social policies and additional Poverty Reduction requirements	
Burkina Faso	Retroactive; oDP in 9/97; oCP in 6/00; eDP in 6/00	Continued implementation of the WB/IMF-supported program	• Completion of budget execution report with a three year history to be audited by Supreme Audit court • Dissemination of a national plan for good governance by March 31, 2001	• Preparation of PRSP • Adoption of an action plan to recruit additional teachers in line with the 1998 civil service reform by March 31, 2001; increase the efficiency of primary schools • Implementing vaccination rates for DPT3 from 42 percent of children aged 12-24 months in December 1999 to 50 percent by December 2000 • Increasing the proportion of health centers meeting minimum staffing norms from 60 percent in 1999 to 65 percent in 2000 • Maintaining the incidence of insufficient stock (of 45 essential generic drugs) to less than 8 percent • Monitoring public resources channeled to health districts to support annual plans	Spring 2001
Honduras	eDP in 6/00	Continued implementation of the WB/IMF-supported program	• Reform of the social security system covering health and pension • Strengthening of the financial sector by applying the Basel Core Principles and by increasing capital adequacy ratios from 9 to 10 percent • Preparation and implementation of a comprehensive anti-corruption strategy	• Successful implementation of the full PRSP for at least one year • Improvement in the quality of education by increasing the number of schools with community participation to 1350 • Strengthening the basic health service for the poor measured by delivering a basic package of health services to at least 100,000 beneficiaries (emphasizing maternal/child care) in poor communities • Implementation of social investment projects based on participatory planning in all beneficiary municipalities	mid-2002

Country	Status 1/	Conditionality for Reaching Floating Completion Points			Expected Timing of eCP
		Macroeconomic performance	Structural reforms	Social policies and additional Poverty Reduction requirements	
Mali	Retroactive; oDP in 9/98; eDP and oCP in 9/00	Continued implementation of the WB/IMF-supported program	• Privatization of public utilities and banks • Continued implementation of reforms under the cotton sector rehabilitation plan	• Preparation of PRSP • Implementation of reforms in the health sector • Implementation of reforms in the education sector	mid-2001
Mauritania	eDP in 2/00	Continued implementation of the WB/IMF-supported program	• Privatization of Air Mauritanie and parts of other utility companies • Compliance by commercial banks with prudential regulations on capital adequacy ratios • Removal of foreign exchange restrictions so that spreads between interbank and parallel rates are less than 10 percent • Unification of VAT rates.	• Preparation of PRSP and satisfactory implementation for at least one year • Reducing the share of the population below poverty line to 40 percent • Improvement in access and survival rate in primary and secondary education by raising enrollment rate of primary education to 99 percent, increasing the share of girls in primary enrollment to 49 percent and improving the survival ratio at the entrance of the 5th grade to 67 percent • Increasing vaccination rate for children to 70 percent; maintaining HIV prevalence rate at the levels of 1998, and setting up a central procurement facility for essential drug contraception	mid-2002
Mozambique	Retroactive; oDP in 4/98; oCP in 6/99; eDP in 4/00	Continued implementation of the WB/IMF-supported program	• Strategic plan for a judicial system; drafting a new commercial code and regulations for private sector involvement in telecom and energy sectors • Publication of quarterly budget execution reports; review of tax and custom exemptions; public sector reform	• Preparation of PRSP • Satisfactory progress in tracking of budgetary resources for poverty reduction, developing strategies and budgetary allocations in health, education and national AIDS program and improving key social indicators • In assessing performance, due consideration given to the impact of floods	March 2001

Country	Status 1/	Conditionality for Reaching Floating Completion Points			Expected Timing of eCP
		Macroeconomic performance	Structural reforms	Social policies and additional Poverty Reduction requirements	
Senegal	Retroactive; eDP in 6/00	Continued implementation of the WB/IMF-supported program	• Privatization of the streamlined 11 public sector enterprises • Improvement in public savings by targeting fiscal surplus to be at least 1 percent of GDP in 2000 and 2.2 percent in 2001 • Removal of distortions in the energy sector • Establishment of a single taxpayer identification	• Preparation of PRSP • Supporting IDA's Quality Education For All program focussing on recruitment of teachers, increases in primary education to 44 percent • Focussing IDA's Integrated Health Sector Credit on primary health care, child immunization, pre-natal care and prevention of endemic diseases • Establishment of an accurate database for monitoring poverty along with a comprehensive household survey	end-2001
Tanzania	eDP in 4/00	Continued implementation of the WB/IMF-supported program	• Reduction of excise taxes from 52 to 6; VAT on petroleum; abolish withholding tax on goods an services • Improvement in utilities performance; land regulations to ensure land can be used as collateral • Adoption of a national action plan for Governance and Public Financial Management and Public Audit	• Preparation of PRSP and satisfactory implementation for at least one year • Improvement of the poverty database and monitoring capacity of social indicators • Adoption of budgetary appropriations in line with poverty objectives • Completing the mapping of schools covering 50 percent of all local authorities • Completing the immunization of at least 75 percent of children under two years against measles and DPTs; campaign against HIV/AIDS with visits to 75 percent of all districts	mid-2001

Country	Status 1/	Conditionality for Reaching Floating Completion Points			Expected Timing of eCP
		Macroeconomic performance	Structural reforms	Social policies and additional Poverty Reduction requirements	
Uganda	Retroactive; oDP in 4/97; oCP in 4/98; eDP in 4/00; eCP in 5/00	Adjustment and reform efforts satisfactory		• Preparation of PRSP • Acceptable "overall progress" in poverty reduction	April 2000

Sources: HIPC country documents; and World Bank and IMF staff estimates.

1/ oDP: original decision point; oCP: original completion point; eDP: enhanced decision point; eCP: enhanced completion point.

Table 1. Enhanced HIPC Initiative

Committed Debt Relief and Outlook; status as of September 7, 2000

(In millions of U.S. dollars)

Country	Debt Relief: NPV Reduction: Original HIPC 1/	NPV Reduction: Enhanced HIPC	NPV Reduction: Total	Nominal Debt Service Relief: Original HIPC 1/	Nominal Debt Service Relief: Enhanced HIPC	Nominal Debt Service Relief: Total	*Comments*	
Countries that have reached their decision points (10)								
Total	**2,868**	**6,291**	**9,159**	**5,730**	**10,460**	**16,190**		
Benin	0	265	265	0	460	460	Approved	Jul.00
Bolivia	448	854	1,302	760	1,300	2,060	Approved	Jan.00
Burkina Faso	229	169	398	400	300	700	Approved	Jun.00
Honduras	0	556	556	0	900	900	Approved	Jul.00
Mali	128	401	529	220	650	870	Approved	Sep.00
Mauritania	0	622	622	0	1,100	1,100	Approved	Jan.00
Mozambique	1,716	254	1,970	3,700	600	4,300	Approved	Apr.00
Senegal	0	488	488	0	850	850	Approved	Jun.00
Tanzania	0	2,026	2,026	0	3,000	3,000	Approved	Apr.00
Uganda	347	656	1,003	650	1,300	1,950	Approved	Jan.00
Countries with target decision points in 2000 (10) 2/								
Cameroon 3/	…	1,466	1,466	0	2,700	2,700	Reviewed	Jun.00
Chad 3/	…	157	157	0	250	250	Reviewed	Jul.00
The Gambia	…	…	…	…	…	…		
Guinea 3/	…	638	638	0	1,150	1,150	Reviewed	Dec.99
Guinea-Bissau	…	…	…	…	…	…		
Guyana	256	…	256	410	…	410	Approved 1/	Dec. 97
Malawi 3/	…	629	629	0	1,100	1,100	Reviewed	Aug. 00
Nicaragua 3/	…	2,507	2,507	0	5,000	5,000	Reviewed	Sep.99
Rwanda 3/	…	445	445	0	800	800	Reviewed	Aug. 00
Zambia 3/	…	2,468	2,468	0	4,000	4,000	Reviewed	Aug. 00
Countries to be considered post-2000 (15)								
Possible Early Cases (5)								
Côte d'Ivoire	345	…	345	800	…	800	Approved 1/	Mar. 98
Ethiopia	…	…	…	…	…	…		
Madagascar	…	…	…	…	…	…		
Niger	…	…	…	…	…	…		
São Tomé and Príncipe	…	…	…	…	…	…		
Others (10)								
Burundi	…	…	…	…	…	…		
Central African Republic	…	…	…	…	…	…		
Congo, Democratic Republic of	…	…	…	…	…	…		
Congo, Republic of	…	…	…	…	…	…		
Liberia	…	…	…	…	…	…		
Myanmar	…	…	…	…	…	…		
Sierra Leone	…	…	…	…	…	…		
Somalia	…	…	…	…	…	…		
Sudan	…	…	…	…	…	…		
Togo	…	…	…	…	…	…		
At request of Government not seeking HIPC debt relief (2)								
Ghana	…	…	…	…	…	…		
Lao P.D.R.	…	…	…	…	…	…		
Memorandum item:								
Debt relief committed under original and enhanced HIPC 4/	**3,469**	**6,291**	**9,760**	**6,940**	**10,460**	**17,400**		

Source: World Bank and IMF staff estimates.

1/ Approved debt relief under the original framework.

2/ Work under way in partnership with government, other creditors, and donors towards the goal of bringing as many countries as possible to their decision points within a framework of sound policies which ensure debt relief is effectively used for poverty reduction. Bank and Fund staffs are committed to do everything possible to have debt relief packages in place for 20 countries by the end of 2000.

3/ Countries for which the Boards of the World Bank and IMF have reviewed the preliminary HIPC documents

4/ Countries that have reached their decision points under the enhanced HIPC framework through early September, 2000 and Côte d'Ivoire and Guyana, which had reached their decision points under the original framework earlier

Note: NPV means net present value.

Table 2: HIPC Initiative—Country Status as of Early September 2000

Country	Entry Requirement Met 1/	Preliminary HIPC Document Issued	Original HIPC Initiative		Enhanced HIPC Initiative		Countries Without Concessional Paris Club Rescheduling
			Decision point	Completion point	Decision point	Completion point	
Decision Point (14 cases)							
Enhanced framework (10)							
Benin 2/		n.a.	DSA	n.a		.	
Bolivia							
Burkina Faso							
Honduras							
Mali							
Mauritania							
Mozambique							
Senegal 2/		n.a.	DSA	n.a.			
Tanzania							
Uganda							
Original framework (2)							
Côte d'Ivoire							
Guyana							
No assistance required/sought (2)							
Ghana		n.a.			DSA	n.a.	
Yemen, Republic of		n.a.		.	DSA	n.a	
Preliminary Document (9 cases)							
Enhanced framework (7)							
Cameroon							
Chad							
Guinea							
Malawi							✓
Nicaragua							
Rwanda							
Zambia							
Original framework (2)							
Ethiopia							
Guinea-Bissau							
Others (18 cases)							
A***ssistance expected to be required (14)***							
Burundi	no						✓
Central African Republic							
Congo, Democratic Republic	no						
Congo, Republic of							
Gambia, The							
Liberia	no						✓
Madagascar							
Myanmar	no						✓
Niger							
São Tomé and Príncipe							
Sierra Leone							
Somalia	no						✓
Sudan	no						✓
Togo	✓						
A***ssistance expected not to be required/sought (4)***							
Angola	no						✓
Kenya							
Lao P.D.R.							
Vietnam							
Total	34	19+4	9	6	12	1	10

Sources: IMF and World Bank staff estimates.
1/ Countries which had IMF-/IDA-supported programs at some point during September 1995–August 2000.
2/ DSAs indicating that these countries were considered sustainable under the original HIPC Framework were distributed to the Boards.

Table 3. HIPC Initiative--Impact of Debt Relief on Countries at the Decision Point 1/

(In billions of U.S. dollars and percent)

	Before HIPC Assistance	After HIPC Assistance	Percent Change
Debt Stock 2/			
NPV Debt	21	12	-43%
NPV Debt/Exports 3/	235%	138%	-41%
NPV Debt/GDP	47%	28%	-40%
Debt Service			
1998-99 Average Paid	1.5	...	...
2000-05 Average Due	1.8	1.0	-42%
Debt Service Ratios			
Debt Service/Exports Ratio			
2000-05 Average Due	15%	9%	-42%
Debt Service/Revenues Ratio			
2000-05 Average Due	19%	11%	-42%
Debt Service/GDP			
2000-05 Average Due	3.8%	1.9%	-51%

Sources: HIPC decision point documents; and IMF and World Bank staff estimates.

1/ Impact shown for those countries that have already reached their enhanced decision points: Benin, Burkina Faso, Bolivia, Honduras, Mauritania, Mozambique, Senegal, Tanzania, and Uganda.
2/ As of end-2000, assuming that debt relief is provided unconditionally at the decision points.
3/ The aggregate NPV debt-to-export ratio falls below 150 percent since Honduras, Mauritania, and Senegal qualify under the fiscal window.

Note: All ratios are averages weighted by the NPV of debt.

Table 4. Total Estimated Relief Provided by Traditional Debt Mechanisms
and Under the HIPC Initiative 1/

(in billions of U.S. dollars)

ble 4	Debt Stocks				Debt Relief					
	1999 NPV terms		Nominal terms		1999 NPV terms			Nominal terms [3/]		
	On basis of HIPC docs	**On basis of GDF data** [2/]	**On basis of HIPC docs**	**On basis of GDF data** [2/]	**Traditional debt relief**	**HIPC relief**	**Total relief**	**Traditional debt relief**	**HIPC relief**	**Total relief** [4/]
1. Countries that have reached the decision point (10 countries)	27	23	37	38	4	9	13	5	16	22
2. Countries that could possibly reach the decision point by December 2000 (10 countries)	24	26	31	32	6	9	15	8	17	26
Total *(1+2)*	51	49	67	70	10	18	28	14	34	47
3. Other HIPCs (12 countries)	…	49	…	55	23	11	34	32	18	49
Total *(1+2+3)* (32 countries)	**…**	**98**	**…**	**126**	**32**	**29**	**61**	**46**	**51**	**97**

Sources: HIPC country documents; Global Development Finance; and staff estimates.

[1/] The traditional debt relief mechanisms shown in this table reflect only the relief that the HIPCs have not yet benefitted from; i.e., this excludes relief provided prior to the Decision Point.
[2/] GDF data is based on country reporting and is published.
[3/] Nominal debt relief includes reductions in interest payments and is not strictly comparable to nominal debt stocks which includes principal only.
[4/] These figures are rough estimates, using country-specific information where available, and an average conversion factor of 1.4 from NPV to nominal terms elsewhere.

Table 5. Possible Time Line of HIPC Initiative Country Documents 1/

	1999	2000				Beyond 2000
	Q4	Q1	Q2	Q3	Q4	
Countries that have reached the decision point (10 cases) 2/						
Benin				2nd D.P.		2nd C.P.
Bolivia		2nd D.P.				2nd C.P.
Burkina Faso			original C.P. & 2nd D.P.			2nd C.P.
Honduras	Prel.			D.P.		C.P.
Mali				original C.P. & 2nd D.P.		2nd C.P.
Mauritania		D.P.				C.P.
Mozambique			2nd D.P.			2nd C.P.
Senegal			2nd D.P.			2nd C.P.
Tanzania			D.P.			C.P.
Uganda		2nd D.P.	2nd C.P.			
Countries with target decision points in 2000 (10 cases)						
Cameroon			Prel.		D.P.	C.P.
Chad				Prel.	D.P.	C.P.
Gambia, The					Prel./D.P.	C.P.
Guinea	Prel.				D.P.	C.P.
Guinea-Bissau					D.P.	C.P.
Guyana					2nd D.P.	2nd C.P.
Malawi				Prel.	D.P.	C.P.
Nicaragua					D.P.	C.P.
Rwanda				Prel.	D.P.	C.P.
Zambia				Prel.	D.P.	C.P.
Countries to be considered beyond 2000 (12 cases)						
Possible early cases						
Côte d'Ivoire						2nd D.P./C.P.
Ethiopia						D.P./C.P.
Madagascar					Prel.	D.P./C.P.
Niger					Prel.	D.P./C.P.
São Tomé and Príncipe						D.P./C.P.
Others						
Burundi						D.P./C.P.
Central African Republic						D.P./C.P.
Congo, Democratic Republic of						D.P./C.P.
Congo, Republic of						D.P./C.P.
Myanmar						D.P./C.P.
Sierra Leone						D.P./C.P.
Togo						D.P./C.P.
Countries not expected to pursue or require debt relief (6 cases)						
Angola**						DSA
Ghana *	DSA					
Kenya**						DSA
Lao P.D.R.*						DSA
Vietnam**						DSA
Yemen **			DSA			

Sources: HIPC Initiative country documents; and IMF and World Bank staff estimates

1/ Earliest possible timing is shown. Actual timing is subject to country circumstances. Excludes Liberia, Somalia, and Sudan.
2/ The timing of the completion points for these countries under the enhanced Initiative will need to be decided by the Boards.

Notes:
* The authorities have indicated that they will not pursue HIPC Initiative assistance.
** Angola, Kenya, Vietnam, and Yemen appear to have sustainable debt levels according to the results of preliminary debt sustainability analyses.

DSA = debt sustainability analysis
D.P. = decision point
2nd D.P. = enhanced HIPC decision point for retroactive cases
C.P. = completion point
Prel. = preliminary HIPC Initiative document

Table 6. HIPC Initiative--Estimates of Potential Costs by Creditor

(In billions of U.S. dollars, in end-1999 NPV terms, potentially qualifying HIPCs)

	December Costing Exercise (32 countries)	Updated Costing Exercise (32 countries)	In Percent of Total Costs
Total costs 1/	**28.2**	**28.6**	**100.0**
Bilateral and commercial creditors	**14.1**	**14.6**	**51.0**
Paris Club	11.4	11.0	38.5
Other official bilateral	1.7	2.5	8.7
Commercial	0.9	1.1	3.8
Multilateral creditors	**14.1**	**14.0**	**49.0**
World Bank	6.3	6.2	21.7
Of which : IDA	5.7	5.6	19.6
IBRD	0.6	0.6	2.1
IMF	2.3	2.2	7.7
AfDB/AfDF	2.2	2.3	8.0
IDB	1.1	1.1	3.8
Others	2.2	2.2	7.7
Memorandum item:			
Total costs including Liberia, Somalia, and Sudan	36.6	37.3	

Sources: HIPC Initiative--Update on Costing the Enhanced HIPC Initiative (EBS/99/220, 12/7/99 and IDA/SecM99-679 country authorities; and IMF and World Bank staff estimates.

1/ Excluding Liberia, Somalia, and Sudan, as well as Ghana and Lao P.D.R.

Table 7. HIPC Initiative--Estimated Costs for Other Multilateral Creditors

(In millions of U.S. dollars, in end-1999 NPV terms, 32 countries) 1/

	Total Costs (32 countries)	**Near-Term Cases** 2/ (20 countries)
Total other multilateral	**2,165**	**1,595**
EU/EIB	526	344
CABEI	485	485
IFAD	228	157
BADEA	155	96
OPEC Fund	137	104
IsDB	102	83
CAF	82	82
AsDB	62	0
AFESD	60	60
CMCF	52	52
BOAD	48	29
BCEAO	42	5
FONPLATA	25	25
CDB	18	18
NDF	18	18
ECOWAS (CEDEAO)	12	12
AMF	11	11
PTA Bank	11	4
BDEAC	10	1
NIB	4	4
EADB	3	3
FOCEM	2	2
FEGECE	1	0
Memorandum items:		
European MDBs 3/	548	391
Latin American MDBs 4/	662	662
Arab MDBs 5/	328	248
African MDBs 6/	127	103
Other MDBs 7/	427	259

Sources: Creditor statements; and IMF and World Bank staff estimates.

1/ Excluding Liberia, Somalia, Sudan, and Ghana. Costs for the World Bank, IMF, AfDB, and IaDB are presented in Table 6.
2/ The 20 near-term cases include retroactive cases (Benin, Bolivia, Burkina Faso, Guyana, Mali, Mozambique,
Senegal, and Uganda), plus Cameroon, Chad, The Gambia, Guinea, Guinea-Bissau, Honduras, Malawi, Mauritania, Nicaragua, Rwanc
Tanzania, and Zambia.
3/ Includes the EU/EIB, NDF, and NIB.
4/ Includes CABEI, CAF, CMCF, FONTPLATA, and CDB.
5/ Includes BADEA, IsDB, AFESD, and AMF.
6/ Includes BOAD, BCEAO, BDEAC, ECOWAS, PTA, EADB, and FEGECE.
7/ Includes OPEC, IFAD, and AsDB.

Table 8. HIPC Initiative--Timeline of Cost Commitments by Main Creditors

(In billions of U.S. dollars, in end-1999 NPV terms) 1/

	Total	Near-term (20)		Post-2000 4/
		DP achieved in 2000 2/	DP targeted for 2000 3/	
	(32 countries)	(10 countries)	(10 countries)	(12 countries)
Total costs	**28.6**	**8.8**	**9.5**	**10.3**
Bilateral and commercial creditors	**14.6**	**3.7**	**4.9**	**6.0**
Multilateral creditors	**14.0**	**5.1**	**4.5**	**4.4**
World Bank	6.2	2.4	1.7	2.0
Of which : IDA	5.6	2.4	1.5	1.7
IBRD	0.6	0.1	0.2	0.4
IMF	2.2	0.7	0.9	0.6
AfDB/AfDF	2.3	0.6	0.5	1.2
IaDB	1.1	0.6	0.5	0.0
Other	2.2	0.7	0.8	0.6
Memorandum item:				
In percent of total cost	100	31	33	36

Sources: Country authorities; and IMF and World Bank staff estimates.

1/ Excluding Liberia, Somalia, and Sudan.
2/ Benin, Bolivia, Burkina Faso, Honduras, Mali, Mauritania, Mozambique, Senegal, Tanzania and Uganda.
3/ Cameroon, Chad, The Gambia, Guinea, Guinea-Bissau, Guayana, Malawi, Nicaragua, Rwanda, and Zambia.
4/ Burundi, Central African Republic, Cote d'Ivoire, Democratic Republic of Congo, Republic of Congo, Ethiopia, Madagascar, Myanmar, Niger, Sao Tome and Principe, Sierra Leone, and Togo.

Table 9. Estimated Costs for HIPCs that have Reached or could Reach an Enhanced Decision Point by December 2000 1/

(In millions of U.S. dollars, in end-1999 NPV terms)

	Grand Total	(In percent of total)	*Countries that have Reached a Decision Point*											*Countries that could Reach a Decision Point by December 2000*
			Total	Benin	Burkina Faso	Bolivia	Honduras	Mali	Mauritania	Mozambique	Senegal	Tanzania	Uganda	
	(20 countries)		*(10 countries)*											*(10 countries)*
Grand Total *(20 countries)*	18,267	100	8,825	250	375	1,280	524	493	587	1,955	462	1,911	987	9,442
Bilateral	8,661	47	3,715	72	53	420	203	152	246	1,226	200	949	193	4,946
Of which :														
Paris Club	6,230	34	2,804	60	21	392	159	100	129	956	119	751	117	3,425
Non-Paris Club	2,176	12	818	12	32	23	41	51	117	223	81	172	65	1,358
Commercial	261	1	98	-	-	7	3	2	-	48	0	26	12	163
Multilateral	9,605	53	5,109	178	322	861	321	340	340	730	261	962	793	4,496
Of which :														
World Bank	4,186	23	2,452	80	155	189	92	170	94	402	117	655	498	1,734
IMF	1,610	9	713	23	42	83	29	54	44	130	43	113	152	897
AfDB	1,141	6	618	35	61	-	-	64	69	137	54	118	80	522
IaDB	1,076	6	595	-	-	469	126	-	-	-	-	-	-	481
Others	1,596	9	731	40	64	121	74	52	133	62	48	76	61	865

Sources: HIPC documents; and IMF and World Bank staff estimates.

1/ Data expressed in 1999 NPV terms in contrast to decision point figures used in Table 1. For example, for Bolivia, original HIPC Initiative assistance is $448 million in end-1998 NPV terms, or $475 million in end-1999 NPV terms; enhanced HIPC Initiative assistance is $854 million assessed in 2000, or $805 million in end-1999 terms, for a total at the decision points of $1,302 million in Table 1 and a total in end-1999 NPV terms of $1,280 million in Table 9.

2/ Includes Cameroon, Chad, The Gambia, Guinea, Guinea-Bissau, Guyana, Malawi, Nicaragua, Rwanda, and Zambia. For Guyana, debt relief costs include amounts already delivered under the original framework of the HIPC Initiative.

Table 10. Estimated Paris Club Cost by Creditor Country for HIPCs
that have Reached or could Reach an Enhanced Decision Point by December 2000 1/

(In millions of U.S. dollars, in end-1999 NPV terms)

	Grand Total	*Countries that have Reached a Decision Point*											*Countries that are likely to Reach a Decision Point December 2000*
		Total	Benin	Burkina Faso	Bolivia	Honduras	Mali	Mauritania	Mozambique	Senegal	Tanzania	Uganda	
	(20 countries)	*(10 countries)*											*(10 countries)*
Total	6,230	2,805	60	21	392	159	103	129	956	116	751	117	3,425
Australia	2	-	-	-	-	-	-	-	-	-	-	-	2
Austria	169	55	-	1	9	-	-	20	5	-	11	11	113
Belgium	112	72	1	-	22	-	-	-	-	1	49	-	41
Brazil	167	132	-	-	-	-	-	7	56	-	67	-	36
Canada	73	18	0	-	1	1	-	-	-	0	15	-	54
Denmark	21	5	-	-	0	1	-	-	-	3	-	-	17
Finland	7	2	-	-	-	-	-	-	-	-	-	2	5
France	1,156	445	25	11	20	5	64	49	223	49	52	11	711
Germany	692	225	1	-	109	7	-	2	63	15	31	1	468
Israel	4	3	-	-	-	-	-	-	-	-	-	3	1
Italy	495	317	9	2	23	14	0	0	159	14	62	33	178
Japan	1,398	586	8	-	115	88	24	27	12	13	303	27	812
Netherlands	91	59	3	2	8	2	1	9	-	2	33	-	31
Norway	18	17	9	-	-	0	-	-	-	4	3	0	2
Portugal	195	153	-	-	-	-	-	-	149	-	-	-	42
Russia	569	269	1	0	-	-	13	-	205	-	56	-	300
South Africa	1	-	-	-	-	-	-	-	-	-	-	-	1
Spain	330	164	-	3	50	28	-	11	39	9	4	22	167
Sweden	17	4	-	-	1	-	-	-	2	0	-	-	13
Switzerland	18	10	-	-	10	1	-	-	-	-	-	-	8
Trinidad and Tobago	95	-	-	-	-	-	-	-	-	-	-	-	95
United Kingdom	311	126	2	1	24	-	1	3	30	0	60	7	185
United States	182	35	0	-	-	12	0	1	13	4	5	0	146

Sources: HIPC documents; and IMF and World Bank staff estimates.

1/ See footnotes 1 to 2 in Table 9.

Table 11. Estimated Costs to Non-Paris Club Creditor Countries for HIPCs that have Reached or could Reach an Enhanced Decision Point by December 2000 1/

(In millions of U.S. dollars, in end-1999 NPV terms)

		Countries that have Reached a Decision Point											*Countries that could Reach a Decision Point by December 2000*
	Grand Total	Total	Benin	Burkina Faso	Bolivia	Honduras	Mali	Mauritania	Mozambique	Senegal	Tanzania	Uganda	
	(20 countries)	*(10 countries)*	-------- *(10 countries)* --------										*(10 countries)*
Non-Paris Club official bilateral	**2,176**	**817**	**12**	**32**	**22**	**41**	**50**	**117**	**223**	**84**	**172**	**65**	**1,359**
Algeria	151	133	-	1	-	-	4	17	93	2	17	-	18
Angola	17	12	-	-	-	-	-	-	11	-	1	-	5
Argentina	3	2	2	-	-	-	-	-	-	-	-	-	1
Brazil	8	6	-	-	6	-	-	-	-	-	-	-	2
Bulgaria	71	12	-	-	-	-	-	-	6	-	6	-	58
Burundi 2/	0	0	-	-	-	-	-	-	-	-	-	0	-
China	160	95	4	2	9	-	17	16	2	14	25	6	64
Colombia	3	3	-	-	-	3	-	-	-	-	-	-	-
Costa Rica	358	4	-	-	-	4	-	-	-	-	-	-	354
Cote d'Ivoire	7	7	-	7	-	-	1	-	-	-	-	-	-
Croatia	1	1	-	-	-	-	-	-	-	-	1	-	-
Cuba	2	1	-	-	-	-	-	-	1	-	-	-	0
Czech Republic	10	6	1	-	-	-	-	-	-	-	6	-	4
Congo, Dem. Rep. of 2/	0	0	0	-	-	-	-	-	-	-	-	-	-
Egypt	3	0	-	-	-	-	-	-	-	-	0	-	3
Former Yugoslavia	37	23	-	-	-	-	-	-	1	-	22	-	14
Guatemala	325	5	-	-	-	5	-	-	-	-	-	-	320
Honduras	86	-	-	-	-	-	-	-	-	-	-	-	86
Hungary	11	7	-	-	-	-	-	-	4	-	3	-	4
India	29	17	-	-	-	-	-	-	2	-	7	8	12
Iran	35	24	-	-	-	-	-	-	-	-	24	-	11
Iraq	54	53	-	-	-	-	3	17	18	0	15	0	1
Kuwait	179	132	5	10	-	6	6	25	18	31	16	15	47
Libya	139	77	0	3	-	-	1	10	26	-	19	18	62

Table 11 (concluded). Estimated Costs to Non-Paris Club Creditor Countries for HIPCs that have Reached or could Rreach an Enhanced Decision Point by December 2000 1/

(In millions of U.S. dollars, in end-1999 NPV terms)

	Grand Total	Total	Benin	Burkina Faso	Bolivia	Honduras	Mali	Mauritania	Mozambique	Senegal	Tanzania	Uganda	*Countries that could Reach a Decision Point by December 2000*
		Countries that have Reached a Decision Point											
	(20 countries)	*(10 countries)*				*-------- (10 countries) --------*							*(10 countries)*
Mexico	47	9	-	-	-	9	-	-	-	-	-	-	38
Morocco	2	-	-	-	-	-	-	-	-	-	-	-	2
Niger 2/	0	0	0	-	-	-	-	-	-	-	-	-	-
Nigeria	2	2	-	-	-	-	-	-	-	-	-	2	-
North Korea	2	1	0	-	-	-	-	-	0	-	-	1	1
Oman	1	1	-	-	-	-	-	-	-	1	-	-	-
Pakistan	1	1	-	-	-	-	-	-	-	-	-	1	0
Peru	8	1	-	-	-	-	-	-	-	-	-	1	7
Poland	9	4	-	-	-	-	-	-	3	-	2	-	5
Romania	35	25	-	-	-	-	-	-	25	-	-	-	10
Rwanda	1	1	-	-	-	-	-	-	-	-	-	1	-
Saudi Arabia	115	77	-	6	-	-	13	29	-	21	5	3	37
Slovak Republic	25	7	-	-	-	-	-	-	7	-	-	-	18
South Africa	4	4	-	-	-	-	-	-	4	-	-	-	-
South Korea	1	1	-	-	-	-	-	-	-	-	-	1	-
Taiwan, Province of China	160	32	-	4	7	10	-	-	-	11	-	-	128
Tanzania	7	7	-	-	-	-	-	-	-	-	-	7	-
Thailand 2/	0	-	-	-	-	-	-	-	-	-	-	-	0
United Arab Emirates	17	15	-	-	-	-	5	4	-	4	2	-	2
Venezuela	46	4	-	-	0	4	-	-	-	-	-	-	42
Zambia 2/	0	0	-	-	-	-	-	-	-	-	0	-	-
Zimbabwe 2/	0	0	-	-	-	-	-	-	-	-	0	-	-

Sources: HIPC documents; and IMF and World Bank staff estimates.

1/ See footnotes 1 to 3 in Table 9.
2/ Total claims are less than $0.5 million.

Table 12. Breakdown of Estimated Costs to Official Bilateral Creditors
for Countries with Enhanced Decision Points Reached or Expected in 2000

(In millions of U.S. dollars, in end-1999 NPV terms, unless otherwise indicated)

Creditors	Total Costs for the 20 Near-term Countries 1/	As Share of Creditor's Exports (In percent)	As Share of Creditor's GDP (In percent)	As Share of Creditor's Reserves (In percent)	Per Capita (In U.S. dollars)
Paris Club Creditors	6,230				
Australia	2	0.0	0.0	0.0	0.1
Austria	169	0.2	0.1	1.1	20.9
Belgium	112	0.1	0.0	1.0	11.0
Brazil	167	0.3	0.0	0.5	1.0
Canada	73	0.0	0.0	0.3	2.4
Denmark	21	0.0	0.0	0.1	4.0
Finland	7	0.0	0.0	0.1	1.3
France	1,156	0.3	0.1	2.9	19.6
Germany	692	0.1	0.0	1.1	8.4
Israel	4	0.0	0.0	0.0	0.7
Italy	495	0.2	0.0	2.2	8.6
Japan	1,398	0.3	0.0	0.5	11.1
Netherlands	91	0.0	0.0	0.9	5.8
Norway	18	0.0	0.0	0.1	4.2
Portugal	195	0.6	0.2	2.2	19.9
Russia	569	0.7	0.3	6.7	3.9
South Africa	1	0.0	0.0	0.0	0.0
Spain	330	0.2	0.1	1.0	8.4
Sweden	17	0.0	0.0	0.1	1.9
Switzerland	18	0.0	0.0	0.0	2.5
Trinidad and Tobago	95	3.0	1.6	10.0	72.1
United Kingdom	311	0.1	0.0	1.0	5.3
United States	182	0.0	0.0	0.3	0.7

Table 13. Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives Beyond the HIPC Initiative

	Countries covered	ODA (In percent)		Non-ODA (In percent)		Provision of relief at	
		Pre-COD	Post-COD	Pre-COD	Post-COD	Decision point (In percent)	Completion point
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Australia	HIPCs	100	100	100	100 1/	1/	1/
Austria	HIPCs (case-by-case)	Case-by-case (100)	Case-by-case (100)	Case-by-case (100)	-	Case-by-case	Case-by-case
Belgium	HIPCs	Case-by-case (100)	Case-by-case (100)	Case-by-case	-	flow	stock
Canada	HIPCs 2/	- 3/	- 3/	100	100	-	Stock
Denmark	HIPCs	100	Case-by-case	-	-	-	Stock
France	HIPCs	100	100	100	-	-	Stock
Finland	HIPCs	95	98	-	-	-	-
Germany	HIPCs	100	100	100	-	flow (100)	Stock
Italy	HIPCs	100	100	100	Case-by-case	-	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands	HIPCs	100	100	100	-	flow (90–100) 4/	Stock 4/
Norway	HIPCs	- 3/	- 3/	100	100	flow (100)	Stock
Russia	Case-by-case	-	-	-	-	-	Stock
Spain	HIPCs	100	Case-by-case	Case-by-case	Case-by-case	-	Stock
Sweden	Case-by-case	-	-	Case-by-case (100)	-	-	Stock
Switzerland	HIPCs	- 3/	- 3/	Case-by-case	Case-by-case	Case-by-case	Stock
United Kingdom	HIPCs	100	100	100	100 5/	flow (100) 5/	Stock
United States	HIPCs	100	100	100	100 6/	flow (100)	Stock

Source: Paris Club Secretariat.

1/ Australia: (a) post-COD non-ODA relief to apply to debts incurred before a date to be finalised; (b) timing details for both flow and stock relief are to be finalised.
2/ Canada: including Bangladesh.
3/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar for Canada.
4/ The Netherlands: (a) ODA: 100 percent ODA pre- and post-cutoff date debt will be cancelled at decision point; (b) non-ODA: in some particular cases (Bolivia, Burkina Faso, Mali, Ethiopia, Nicaragua, and Tanzania), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPC countries will receive 100 percent cancellation of the remaining stock of the pre-COD debt.
5/ United Kingdom: 100 percent post-COD non-ODA treated on debt assumed prior to 01/01/2000; provision of relief at decision point, but conditional up to the completion point.
6/ United States: 100 percent post-COD non-ODA treated on debt assumed prior to 6/20/99 (the Cologne Summit).

Note: "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table means that the debt relief provided under the enhanced HIPC framework will be topped up to 100 percent through a bilateral initiative.

Table 14. Status of Bilateral Donor Pledges to the HIPC Trust Fund 1/

(As of July 31, 2000, in millions of U.S. dollars, in nominal terms)

Donor	Contributions (Received Prior to September 1999) 2/ *(1)*	Contributions Pledged Before September 1999 *(2)*	Contributions Pledged Subsequently: EU/EC 3/ *(3)*	Contributions Pledged Subsequently: Others *(4)*	Total Announced Pledges *(5=2+3+4)*	Memorandum Item: Overall Contributions 4/ *(6=1+5)*
Australia	5			7 7/	7	12
Austria			19		19	19
Belgium	4	8	28		36	40
Canada	27			75 6/	75	102
Denmark	26		16	19	35	61
Finland	15		11	9	20	35
France		21	178		199	199
Germany		24 6/	171	48	243	243
Greece	1		9		9	10
Iceland				2	2	2
Ireland	15		4		4	19
Italy			92	70	162	162
Japan	10			190 7/	190	200
Luxembourg	1		2		2	3
Netherlands	61		38	70 6/	108	169
New Zealand				2 6/	2	2
Norway	42			37	37	79
Portugal	15		7		7	22
Spain	15		43	70	113	128
Sweden	28		20	35	55	83
Switzerland	30			30	30	60
United Kingdom 5/	36	135	95	50	280	316
United States				600	600	600
Total	**331**	**188**	**734**	**1,313**	**2,235**	**2,566**

Source: IDA staff estimates.

1/ Figures are approximate. Some contributions are in the donor's national currency and in the form of a promissory note.

2/ Includes allocations from the Interest Subsidy Fund (ISF) to the HIPC Trust Fund. Australia is retaining its surplus resources in the ISF (rather than transferring them to the HIPC Trust Fund) but has authorized the World Bank to use them to provide debt relief as necessary under the HIPC Initiative. There remain approximately US$83 million in ISF surplus assets that have not been allocated.

3/ For illustration, the exchange rate used is EUR1 = US$1 and the attribution to member states is based on their respective contributions to EDF8.

4/ Many donors have also provided debt relief through other initiatives and mechanisms including: the Debt Reduction Facility for IDA-only Countries (providing financing for commercial debt reduction efforts), and specific country-held multilateral debt relief facilities. Most notably, additional debt service relief has also been provided to several Central American countries in the aftermath of Hurricane Mitch through the Central American Emergency Trust Fund. Bilateral donor funding to that trust fund to provide debt service relief to Honduras and Nicaragua includes (in U.S. dollar million): Spain - $30; Norway - $15; Netherlands - $12.8; Switzerland - $15.5; Italy - $12; United Kingdom - $16.3; Austria - $2.7; Canada - $5.4; Germany - $13.2; Sweden - $16.6; United States - $25; and Denmark - $10.9 (through a bilateral trust fund administered by IDB). These resources are not included herewith as the debt relief under the HIPC Initiative is additional to these efforts.

5/ In addition, the United Kingdom has contributed SDR 31.5 million to the HIPC Trust Fund for the IMF for debt relief to Uganda.

6/ Contribution agreements have been signed and payments have been received by the Trust Fund.

Table 15. HIPC Initiative -- Estimated Financing of other MDBs
(In NPV terms, in millions of U.S. dollars)

MDB groups	Total Cost	To be covered by internal resources	To be covered by HIPC Trust Fund
Latin American MDBs 1/	1726	1151	575
AfDB	2347	370	1977
Other African MDBs 2/	126	39	87
Arab MDBs 3/	326	326	----
EU	594	594	----
Other European MDBs 4/	21	21	----
Other MDBs 5/	421	421	----
TOTAL	**5561**	**2922**	**2639**

Table 16. HIPC Initiative -- Financing Needs for Other MDBs and HIPC Trust Fund Pledges/Contributi
(in millions of U.S. dollars)

	To be covered by HIPC Trust Fund *(In NPV terms)*	Pledges/Contributions HIPC Trust Fund 7/ *(In Nominal terms)*
MDB Groups		
Latin American MDBs 1/	575	
AfDB	1977	
Other African MDBs 2/	87	
TOTAL	**2639**	
HIPC Trust Fund 6/		**2508**
EU (as group)		734
Europe (as individual countries)		872
USA		600
Japan		200
Canada		102

Sources: Staff estimates and HIPC Trust Fund Administrator.

1/ Includes IDB, CABEI, CAF, CDB, CMCF, and FONPLATA.
2/ Includes BCEAO, BOAD, ECOWAS Fund, EADB, BEAC, FEGECE, PTA Bank
3/ Includes BADEA, IsDB, FADES, AMF
4/ Includes NDF and NIB.
5/ Includes AsDB, IFAD, OPEC Fund
6/ Many pledges/contributions are made in the donors' domestic currency. The actual dollar value of the pledge will depend on the exchange rate at the time the contribution is received.
7/ This excludes contributions and pledges of US$58 million made to support debt relief to be provided by the World Bank.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Poverty Reduction Strategy Papers—Progress in Implementation

Prepared by the Staffs of the IMF and the World Bank

September 7, 2000

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GLOSSARY OF TERMS

BWI	Bretton Woods Institutions
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CSO	Civil Society Organizations
DAC	Development Assistance Committee
DFID	Department for International Development
EC	European Commission
ESAF	Enhanced Structural Adjustment Facility
EURODAD	European Network on Debt and Development
GDDS	General Data Dissemination System
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IDG	International Development Goals
IFI	International Financial Institution
I-PRSP	Interim Poverty Reduction Strategy Paper
JIC	Joint Implementation Committee
JSA	Joint Staff Assessment
MDB	Multilateral Development Bank
MTEF	Medium Term Expenditure Framework
NGO	Non-Governmental Organizations
OECD	Organization for Economic Co-operation and Development
PEAP	Poverty Eradication Action Plan
PER	Public Expenditure Review
PRSP	Poverty Reduction Strategy Paper
PRS	Poverty Reduction Strategies
PRSC	Poverty Reduction Support Credit
SPA	Strategic Partnership with Africa
UNDP	United Nations Development Programme

I. INTRODUCTION

1. In September 1999, the Development and Interim Committees endorsed a new framework for Bank and Fund efforts to achieve sustainable poverty reduction. This approach, building on the principles of the Comprehensive Development Framework (CDF), required that nationally-owned, participatory poverty reduction strategies (PRSs)—embodied in Poverty Reduction Strategy Papers (PRSPs)—serve as the basis for concessional lending and for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.[1] It was also the expectation that these national strategies would serve as a framework for other donor assistance.

2. During the discussion of the Joint Paper on Poverty Reduction Strategy Papers—Operational Issues (December 21, 1999), Bank and Fund Directors agreed that it would be appropriate to conduct a review of the PRSP approach at the latest by the end of 2001 and for the staffs to prepare earlier progress reports. A first progress report outlining initial developments[2] was prepared for the Spring Meetings of the Development Committee and the International Monetary and Financial Committee. This paper reports on developments in the PRSP process since the Spring Meetings, and highlights key themes that have emerged from discussions with countries preparing PRSPs and their development partners. Although the new approach is still in its early stages, experience thus far indicates that momentum is accelerating and that countries are generally working effectively in line with core principles (summarized in Annex II). Part II highlights the main elements of progress to date and the outcomes of dialogue with countries and development partners. Part III outlines some operational responses to issues that have arisen from experience with early implementation.

II. PRESENT STATUS AND RECENT EXPERIENCE

3. Program momentum has continued to build over the past six months. *Developing countries* have responded favorably to the call to prepare country-driven poverty reduction strategies to serve as the focal point for development assistance in support of sustainable poverty reduction. Many have moved ahead with preparing I-PRSPs and PRSPs, in two cases completing full PRSPs. *Development partners* have also been supportive of the notion that PRSPs should serve as the basis for their development assistance programs and recognize that they have an important role to play in providing both technical and financial assistance if these country-owned strategies are to be successfully developed and implemented. *Bank and Fund staff* have expanded their efforts to improve internal coordination (Part III.A) and to

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[1] A brief statement on the relationship between the CDF and the PRSP by Messrs. Wolfensohn and Fischer is attached as Annex I.

[2] See Poverty Reduction Strategy Papers—Progress Report (SM/00/69, Revision 1) and (SecM2000-168).

support countries' capacity to prepare poverty reduction strategies (Part III.B and C, and Annex III).

4. At the same time, and although early experience has been mainly confined to I-PRSPs, a number of challenges are already emerging. *Developing countries* face capacity constraints with respect to the institutional and technical demands and the administrative costs of preparing PRSPs, especially in light of apparently rising expectations for coverage. Introduction of broad-based participatory processes also represents a challenge for countries without a prior tradition of such participation. *Development partners* often remain uncertain about their specific role, and the process of coordination can be time consuming and costly. *Bank and Fund staffs* need to respond to country requests for clarification about what constitutes an "acceptable" I-PRSP (Annexes III and VI) or full PRSP (Part III.C), including the participatory processes involved, while not compromising the principles of flexibility and country ownership. Donors also need to be involved in this process.

5. Finally, early experience with the PRSP program has highlighted the need for further research, in addition to work already underway, in a number of critical areas. A central topic for more work is that of the linkages between expenditures on interventions and inputs designed to reduce poverty on the one hand, and results in terms of actual outcomes for the poor on the other. Not enough is yet known about what the programs and actions that constitute the core of a PRS will in practice "buy" in terms of poverty reduction, or about the timeframe over which outcomes are likely to emerge. Without more knowledge of the relationship between expenditures and results, it is difficult to evaluate the impact of proposed strategies. Other areas for further work to supplement existing knowledge include: the determinants of pro-poor growth; the linkages between economic growth, macroeconomic policies and poverty reduction; the mainstreaming of trade policy issues into poverty reduction strategies; and the design and role of monitoring processes that allow countries and partners to ascertain "what works" and ensure the participation of civil society in these processes.

6. Both early progress and emerging challenges should be viewed against the backdrop of some tensions that were recognized from the outset as being inherent, given the multiple objectives of the program. First, there is a tension between the need to move forward quickly with strategy preparation so that countries can obtain timely concessional assistance and debt relief, and the need to secure country ownership based on broad participatory processes. This tension is intended to be relieved by the development of I-PRSPs, which do not require the participatory processes or the degree of analysis expected for full PRSPs. But the issue of the expected timeframe for moving from I-PRSPs to full PRSPs is increasingly coming to the fore. Both governments and development partners have expressed concern that preparation will require more time than is currently envisaged (see Part III.B). Second, there is a tension between the concept of country ownership and the prerogative of the Boards to determine whether an I-PRSP/PRSP provides a sound basis for Bank and Fund concessional assistance and/or HIPC debt relief. In many cases, this tension is being reduced by an active, constructive dialogue between the country and the staffs throughout the PRSP process and by openness on the part of the Bank and Fund to home-grown approaches. At the same time, it

is essential that scarce donor resources, including those of the Bank and Fund, be deployed in a manner, and within a policy environment, where they can have the desired impact. In this context, it will be important to emphasize the evolving “learning by doing” nature of the process over the medium to long term, and to exercise judgment in light of specific country situations and international experience.

A. Present Status of I-PRSPs and PRSPs

7. As of the Spring Meetings, the Boards had considered I-PRSPs prepared by three countries (Bolivia, Mozambique, and Tanzania), together with HIPC Decision Point documents with PRSP content for Mauritania and Uganda. As shown in Table 1, as of September 7, the Boards had considered an additional 12 country documents—the first two full PRSPs, for Burkina Faso and Uganda, and I-PRSPs for ten more countries, eight in Africa, one in Europe and Central Asia, and one in the Western Hemisphere. Meanwhile, other countries are moving forward with the process and some have already prepared draft I-PRSPs (e.g., Cameroon Guyana, Nicaragua and Yemen). By mid-2001, over 30 more countries are tentatively expected to have prepared I-PRSPs, and 10 or more to have prepared full PRSPs, depending on individual country circumstances (see Annex Table 1).

B. Lessons from Recent Experience with I-PRSPs and PRSPs

8. Most country documentation to date has been in the form of I-PRSPs, the minimum requirements for which are a commitment on the part of the authorities to poverty reduction, a summary of current knowledge about and analysis of poverty, a description of the existing poverty reduction strategy, a three-year macroeconomic framework and policy matrix, and a description of the process for producing a fully developed PRSP in a participatory fashion. In practice, differing degrees of preparedness and capacity has meant that the quality of I-PRSPs has varied. Nevertheless, some preliminary lessons can be drawn from experience with I-PRSPs prepared to date and with the two full PRSPs. These lessons have emerged from country documents, the Bank-Fund Joint Staff Assessments (JSAs), and direct dialogue with governments.

Table 1: PRSPs/I-PRSPs Discussed by Bank and Fund Boards as of September 7, 2000

			Board Discussions	
Region and Country	**Accompanied by**	**Documentation**	**Bank Board Date**	**Fund Board Date**
Africa				
Mauritania	HIPC	Decision Point Document	1/27/00	2/2/00
Uganda	HIPC	Decision Point Document	1/27/00	2/7/00
Tanzania	HIPC	I-PRSP	4/4/00	3/31/00
Mozambique	HIPC	I-PRSP	4/6/00	4/7/00
Sao Tome & Principe	PRGF	I-PRSP	4/27/00	4/28/00
Uganda	HIPC	PRSP	5/2/00	5/1/00
Senegal	HIPC	I-PRSP	6/20/00	6/21/00
Burkina Faso	HIPC, PRGF	PRSP	6/30/00	7/10/00
Benin	HIPC, PRGF	I-PRSP	7/13/00	7/17/00
Chad	HIPC, PRGF	I-PRSP	7/25/00	7/25/00
Kenya	PRGF	I-PRSP	8/1/00	7/27/00
Zambia	PRGF	I-PRSP	8/4/00	7/26/00
Ghana	PRGF	I-PRSP	8/24/00	8/22/00
Mali	HIPC, PRGF	I-PRSP	09/07/00	09/06/00
Europe & Central Asia				
Albania	PRGF	I-PRSP	6/8/00	6/9/00
Latin America & The Caribbean				
Bolivia	HIPC	I-PRSP	1/27/00	2/4/00
Honduras	HIPC, PRGF	I-PRSP	7/6/00	6/30/00

Ownership and commitment

9. Countries have responded positively to the invitation to take the initiative in preparing nationally-owned poverty reduction strategy documents. The information provided in I-PRSPs has generally exceeded the minimum levels expected—in some cases substantially so (e.g., Honduras, Kenya, and Mozambique). In several cases, countries have specifically noted that work on I-PRSPs has been managed and guided at very high levels of political authority (examples include the I-PRSPs for Honduras, Mozambique, and Tanzania, and both full PRSPs). Burkina Faso's PRSP calls for "a new form of partnership [with development partners]…..based on the concept of ownership." Several countries have explicitly stated that poverty reduction is the central goal of their development strategies (e.g., Ghana, Kenya, Mozambique, Sao Tome and Principe, Tanzania, and Uganda). Although, as expected, I-PRSPs have drawn heavily on existing programs rather than undertaking significant re-examination of current poverty policies and programs, progress is being made in I-PRSP countries to mobilize resources and institutions as the transition is being made to full PRSPs. However, the program is still at too early a stage to draw firm conclusions on ownership; its extent will become clearer as evidence emerges about how effectively new programs are being implemented.

Quality and availability of poverty data

10. Timely and accurate poverty data are critical to any meaningful poverty diagnostic or impact evaluation. Countries preparing I-PRSPs were expected to identify gaps in their poverty data and indicate how these gaps would be addressed during the period leading up to the full PRSP, including through technical assistance. The availability of poverty data has varied widely. Several I-PRSPs (e.g., those for Bolivia, Ghana, Honduras, Kenya, and Mozambique) and the two full PRSPs for Burkina Faso and Uganda have up-to-date data. Other I-PRSPs countries were hampered by out-of-date or relatively limited household survey data (e.g., Albania, Chad, Sao Tome and Principe, Senegal, and Tanzania). The lack of gender-disaggregated data is a general problem for most countries. There is an urgent need to address these problems, which will require both time and money. In this respect, the PARIS 21 data initiative for building statistical capacity in developing countries and the IMF's General Data Dissemination System (GDDS)—a means to help countries develop and broadly disseminate their statistical frameworks-- are helpful initiatives. In several cases, development partners (including the African Development Bank, UNDP, the World Bank, and bilateral donors) are helping or plan to help with data improvement. During the interim, expectations will need to be moderated in cases where countries have little choice but to use existing data, despite their limitations, in developing their initial poverty reduction strategies.

Building on prior work

11. Many of the relatively substantial I-PRSPs, as well as the Uganda and Burkina Faso full PRSPs, have built effectively upon existing poverty data, analysis, and strategies. Examples of prior work in I-PRSP countries include Bolivia's National Dialogue, Ghana's Vision-2020, Honduras' Master Plan for Reconstruction and Transformation, Kenya's National Plan for Poverty Eradication, Mozambique's National Action Plan for the Reduction of Absolute Poverty, and Tanzania's National Poverty Eradication Strategy. While some of these strategies are more comprehensive and/or up-to-date than others, all provide a useful foundation upon which their respective PRSP processes can be built. In this regard, the effectiveness and sustainability of country programs will likely be enhanced by embedding them into existing, well-designed country arrangements for program costing, budgeting, and preparation of Medium Term Expenditure Frameworks (MTEFs). Tanzania's MTEF and annual Public Expenditure Review (PER) have provided the context for monitoring priority expenditures. Uganda's full PRSP is firmly anchored in the government's comprehensive Poverty Eradication Action Plan (PEAP), first developed in 1997 and revised to take into account new poverty data, detailed sector plans, direct consultation with the poor, and a strengthened MTEF. Burkina Faso's PRSP is based on the government's statement of intentions as laid out in its 1995 "Letter of Intent for Sustainable Human Development" and subsequent policy papers regarding growth, poverty reduction and sector strategies. The Uganda PRSP and the Bolivia and Ghana I-PRSPs have also benefited from the fact that these countries are three of the 13 CDF "pilots"; the CDF and PRSP processes are based on common principles and are mutually reinforcing, for example with respect to their emphases on country ownership, partnerships, and a multidimensional approach. Finally, in some cases (e.g., Tanzania and Uganda) prior work has included bringing together various poverty

analyses prepared by government, NGOs, and academia, thereby providing a useful base of information drawn from multiple sources.

Participatory processes

12. Countries were not required to carry out participatory processes in preparing I-PRSPs, but rather to develop action plans and timetables for putting such processes in place in the context of their full PRSPs. In practice, however, there has been a much greater degree of participation in I-PRSP preparation than originally envisaged, reflecting countries' existing processes. The extent and quality of participation has nonetheless varied, as has the degree of engagement with civil society. For example, in Albania, civil society has been included in the national PRSP steering committee from the start. In Honduras, civil society was extensively involved in the I-PRSP process, although the document itself was not made available to civil society groups before its submission to the IMF/World Bank Boards. While I-PRSPs have included proposals for participatory processes to be adopted in preparing full PRSPs, these too have varied in depth and breadth with respect to, e.g., arrangements for bringing the poor themselves into the process and ensuring that the otherwise voiceless groups, including women, are heard. The Executive Boards of the Bank and Fund have praised cases where proposed participatory processes have been comprehensive in scope and have taken note of cases where participation arrangements have been less well-specified.

13. The two countries that have completed full PRSPs differed in the comprehensiveness of their participatory processes. In Uganda, broad consultations took place across ministries and at different levels of government; existing democratic consultation processes were used as the basis for the PRSP and the poor were directly consulted through the Uganda Participatory Poverty Assessment Project. Civil society helped draft the PRSP and is presently involved in monitoring its implementation. In both Burkina Faso and Uganda, the PRSPs were considered and approved by the national parliaments. Participatory processes in Burkina Faso, however, despite the country's strong tradition of participation, were less comprehensive than in Uganda. While the participation of key ministries and consultations with civil society were a feature of the drafting phase of the PRSP, a missing element was systematic consultation directly with the poor. The final document lacked a summary of the main issues raised in the consultation process or a discussion of the role of organizations representing the poor in future monitoring of implementation. These issues were recognized in the PRSP and the Joint Staff Assessment (JSA).

14. The staffs are conducting a retrospective review of the participatory processes used in countries that have formulated I-PRSPs and full PRSPs. Early experience suggests that wide dissemination—not only within government but also among the public at large—of information about planned participation arrangements is critical for the success of the process, and that there is a critical distinction between "consultation" and broad-based participation. Participation is also important for monitoring and tracking poverty-related public expenditure: if given enough information, citizens can actively participate in this process and thereby enhance transparency and accountability.

Policy priorities

15. Common themes have been emerging regarding governments' priorities for poverty reduction efforts. I-PRSPs and PRSPs prepared since the Spring Progress Report have confirmed the importance accorded to broad-based growth as a *sine qua non* for sustainable poverty reduction. All have also stressed the importance of social sector investments (e.g., education and health). Other common themes include the central importance of rural development and of special efforts to assist disadvantaged groups (e.g., women, children, the elderly, and ethnic minorities) as key components of an overall growth and poverty reduction strategy. Several countries (e.g., Burkina Faso, Ghana, Kenya, and Tanzania) have explicitly noted the linkage between their poverty reduction priorities and the OECD/DAC International Development Goals (IDGs) for 2015. Equally important, based on consultations with civil society and non-government organizations, new issues are also being placed on the poverty agenda in areas such as governance (Kenya), anti-corruption (Ghana), transparency and fiscal accountability (mentioned in virtually all country documentation), and improving the access of the poor to public services. Discussions in the Boards of the Bank and Fund have emphasized the importance of cross-cutting issues such as gender, the environment and intersectoral linkages. At the same time, as countries move from I-PRSPs to full PRSPs, a key challenge for governments and the international community alike will be to move forward from broad statements of intent across a wide front to well-specified, prioritized, realistic and achievable programs and action plans that evaluate trade-offs and make clear choices among competing needs.

Costing of poverty reduction strategies and outcomes

16. Costing of poverty reduction strategies is proving to be more difficult than originally envisaged. Input costs need to be reliably estimated, and it has long been recognized that some inputs, such as institutional reform and better governance, are inherently difficult to cost in a reliable way. Moreover, the relationship between inputs and outcomes is often difficult to define (see above, para. 5); hence the costs of achieving final outcomes cannot, in many cases, be realistically estimated. These difficulties can make it hard to determine whether a poverty reduction strategy is consistent with a country's fiscal framework, or to make a case for changing the framework to accommodate a poverty reduction strategy. While detailed costings were not expected at the I-PRSP stage, several countries have underscored their intention to improve their costing capacity and to integrate such costing into their budgetary processes, including MTEFs. With respect to the two full PRSP countries, poverty eradication programs are embedded in Uganda's budgetary process and the MTEF (although further work is needed on costing), and a special Poverty Action Fund has been established to prioritize budget allocations that directly benefit the poor. In Burkina Faso, the PRSP provides estimated costs for priority poverty programs and indicates how additional donor assistance and HIPC resources are to be integrated into the national budget. Donor support for poverty reduction strategies in other countries will likely be enhanced by clear links between costed strategies and fiscal frameworks.

Tracking poverty-related public expenditures in PRSP countries

17. An important element of a poverty reduction strategy is tracking poverty related public spending. For virtually all PRSP countries, developing effective tracking systems will require improvements across the full range of budgetary and financial management practices, from budget formulation to monitoring, evaluation, and auditing. The underlying objective is to ensure that countries have the capacity to manage and use public expenditures effectively, and specifically in the PRS context, to ensure that resources for poverty reduction are appropriately used. Additionally, to the extent that countries restructure expenditures to emphasize poverty orientation, such restructuring would need to be tracked. Bringing PRSP countries to the stage at which they will all have effective, comprehensive budgetary systems (including well-established MTEFs) will take political will, many years and substantial resources, including technical assistance. Until such improvements take place, it will be important for governments to adopt interim measures such as expenditure tracking surveys and monitoring of poverty focused programs with respect to poverty expenditures of the kind outlined in Part III.D. At the same time, focusing on spending that is directly poverty-related should not lead to neglect of public actions that may have substantial indirect effects in terms of bettering the lives of the poor (such as governance and institutional reform).

Macroeconomic framework and structural policies

18. In contrast to I-PRSPs, full PRSPs are expected to integrate a fully costed poverty reduction strategy into a consistent macroeconomic framework. This presents considerable challenges, as the linkages between macroeconomic policies and poverty reduction are complex, and the macroeconomic and poverty data available are often unreliable. Moreover, movement to pro-poor and pro-growth budgets would be undermined if it compromised fiscal sustainability and did not allow for constraints on absorptive capacity. In Uganda, the authorities are developing the PRSP under the revised PEAP, which compares the poverty reduction strategy with planned outlays. Although adjustments have had to be made on account of the resulting shortfall, it is hoped that this could eventually lead to an increase in donor assistance to support larger fiscal deficits in line with the targets identified in the PRSP. On structural reforms, the Uganda PRSP analyzes some of the impacts on the poor—for example, with respect to the progressiveness of the taxation system and removing distortions in it.

C. Outreach and Feedback

19. Bank and Fund staffs have intensified their dialogue with PRSP countries and development partners with a view to ensuring that the PRSP program moves forward smoothly and in line with countries' capacities and needs. As the PRSP program has gained momentum in recent months, outreach to PRSP countries has increasingly taken place in the context of learning events (Annex III, para. 3) as well as Bank and Fund missions and dialogue with countries. Bank-Fund sponsored outreach to development partners since the Spring Meetings has been complemented by events sponsored by the partners themselves (e.g., the May OECD/DAC High Level Meeting, the June U.N. Social Summit, the June

meetings of the Strategic Partnership with Africa, and the June IDA-12 Deputies Mid-Term Review Meeting), at which the PRSP approach has been a featured issue for discussion. In addition, conceptual and analytical commentaries on the PRSP approach have been prepared by several development partners (Annex IV).

20. Three key messages have emerged from exchanges with countries and development partners. First, both groups are generally supportive of the PRSP process since it embodies CDF principles with which they broadly agree and encompasses many of their own development priorities, including the promotion of enhanced partnerships, better governance, stronger country ownership, enhanced donor collaboration, and a more unified approach to countries' needs. As a result, some countries and development partners are already beginning to work together on key areas (such as improving poverty data), and some partners have made specific arrangements for working cooperatively with the Bank and Fund in supporting country programs (Annex V). Second, however, there remains a perception that the PRSP process is dominated by the Bank and Fund, and uncertainty about prospects for change in this regard. Third, both countries and partners have sought clarification about the core content of PRSPs and the minimum requirements for a participatory process (Part III. C). These and other major points emerging from consultations with countries, civil society groups, and donors are discussed below.

Poverty at the forefront

21. Countries and partners see the PRSP as an important vehicle for placing poverty reduction at the top of the development agenda, for promoting the goal of "pro-poor growth," and for encouraging a multidimensional approach to the realization of this goal that includes raising rates of economic growth, investing in social sectors, and supporting governance objectives. However, partners have noted, as countries move from I-PRSPs to full PRSPs, the need for detailed analysis of the links between growth and poverty reduction, the role of institutional constraints, and the impact of past and present structural reform efforts on the poor, women, and the environment. Donors and NGOs have expressed concern that the focus on short-term economic stability often comes at the expense of long-term sustainable development.

Participation

22. Countries and partners have strongly supported the central importance of ownership of and participation in the PRSP process. At the same time, some have raised concerns about the tensions between "speed and ownership" and "speed and quality," related in part to concern about the rate of progress with HIPC debt relief. Countries have emphasized that governments must take the lead in initiating participatory processes, and they have stressed the need to ensure that taking account of the views of civil society does not undermine the authority of national parliaments and existing democratic processes. Countries have also noted that participation is a much more comprehensive concept than consultation, that governments will need to disseminate timely information to civil society organizations, and that efforts would be needed (including by development partners) to ensure that these

organizations can play their important role in the process. NGOs have emphasized the need for genuine participation that involves a cross section of civil society including the poor. In the longer term, this approach would provide broader based support for policy change. NGOs have also stressed the need for greater transparency to encourage wider participation. In this regard, they have noted that posting PRSP material on Bank and Fund websites (Annex III, para. 6) does not meet the transparency needs of those countries that have limited access to the Internet.

Content of PRSPs

23. NGOs and donors are supportive of linking countries' poverty reduction strategies to the International Development Goals. However, they recognize that linking goals to measurable intermediate indicators is difficult, as is linking poverty reduction strategies to the budget. With respect to specific content items (see also para. 15), partners and countries have stressed the need to focus on women as key agents in promoting growth and poverty reduction, and on the adverse effects of external and domestic shocks on the poor. Along with partners, countries have also noted the importance of addressing rural poverty and the devastating impact of HIV/AIDS in Africa. Countries and development partners have also emphasized the critical importance of trade policy in low income countries and of reducing barriers to the exports of poor countries. Finally, countries, NGOs, and donors have also stressed the importance of focusing on employment and the problem of "jobless growth," and on environmental sustainability.

Capacity

24. Countries have expressed concern about capacity constraints with respect to PRSP preparation. Some have indicated that they see little benefit in preparing highly-specific PRSPs when the challenges facing developing countries are so enormous, capacity is so limited, and the urgency of addressing poverty issues is so immediate. In the context of limited capacity, countries have suggested that once an initial PRSP has been prepared, full updates should be spread out over five years (versus three years) to better reflect the resource constraints facing these countries. While this question has not yet arisen in practice, it will be important to consider it in the context of the 2001 PRSP review. Donors and NGOs have also expressed concern about the issue of domestic capacity in PRSP countries both to formulate and implement strategies and to coordinate donor assistance. Additionally, some partners have expressed concern about the limited capacity of civil society in some countries—reflecting past lack of consultation and limited data availability—to participate in dialogue on complex policy issues such as the macroeconomic framework, the sequencing of structural reforms and policy trade-offs. NGOs have suggested that donors should play a role in building the capacity of civil society groups.

Macroeconomic framework and structural policies

25. Some development partners are concerned that there will be limited flexibility and change in IMF-supported programs in PRSP countries. NGOs have stated that IMF macro-

conditionality for these countries remains stringent; that recent PRGFs are not different from previous ESAFs (for example in Tanzania and Honduras); that there are no references to changes in the macroeconomic framework with respect to integrating poverty reduction concerns; and that it remains unclear how full PRSPs will integrate a fully costed poverty reduction strategy into a consistent macroeconomic framework. Both donors and NGOs also stress that analysis of the equity and distributional effects of growth remains limited. Development partners in general recognize that structural weaknesses or distortions in land ownership, financial markets, labor markets, the civil service, and the foreign trade regime can limit the extent to which the poor can contribute to, and share more fully in, economic growth. At the same time, many express concern over the lack of analysis regarding the appropriate sequencing of structural reforms, the short- and long-term poverty effects of structural policies, and the action needed to offset any temporary adverse effects of reforms on the poor.

Aid modalities and donor support

26. There is a general consensus that donors need to be open to new ways to address the development agenda. There is also broad support for making the PRSP the focal point of donor assistance programs and for improved donor assistance coordination in implementing these programs. To this end, both Burkina Faso and Uganda have presented their full PRSPs to donors. Countries have proposed, and many partners have agreed, that donor procedures need to be streamlined and simplified. This point has also been explicitly made with respect to Bank-Fund conditionalities (Part III.E). Countries have also proposed that donors redesign their assistance programs to better reflect the medium- to long-term timeframe of their poverty reduction strategies, and that donors move towards providing assistance in the form of broad-based sectoral and budgetary support. There is not consensus among donors on this point, and some donors intend to explore modalities for supporting PRSPs through more conventional vehicles. With respect to technical assistance linked to work on PRSPs, several countries have identified the issue of limited poverty data availability, and have noted their intention to seek donor support in this area. Others have underscored their need for more broad-based support in preparing their PRSs. Donors have expressed interest in supporting a range of activities, including poverty surveys and diagnostics, information systems, public finance management systems, and civil society institutional capacity building.

Role of the World Bank and the IMF

27. While donors are broadly supportive of the PRSP approach, they have cautioned against I-PRSPs becoming an all encompassing effort and urged that these documents be kept manageable and not overloaded with process. They have also called for better links between the PRSP process and the Bank's Country Assistance Strategy (CAS) (Part III. F) and clearer links between the PRGF and the PRSP. Some also question what would happen if a country-owned PRSP or I-PRSP were to propose a strategy that differed from Bank-Fund thinking, and wonder under what circumstances, if any, the Bank and/or Fund might reject a country strategy. NGOs have expressed concern that PRSPs which were technically sound but with limited participation might still be considered as a basis for Bank/Fund concessional

lending and HIPC debt relief. Partners have also questioned whether improved collaboration would, in reality, lead the Bank and the Fund to be more selective in its activities within each country, deferring to other development partners where these partners have a comparative advantage in the country context.

III. Addressing Issues in Implementation

28. The issues outlined in Part II represent important challenges for the effective implementation of the PRSP approach. The sections that follow highlight six areas where action is being taken to respond to these challenges. At their meetings on September 5, the Boards of the Bank and Fund broadly supported the actions described below, and gave specific guidance on the actions proposed in sections B and C.

A. Improving Coordination: Joint Implementation Committee

29. The Bank and Fund have established very close collaboration on PRSP work, including joint missions to support countries in preparing I-PRSPs and full PRSPs, and joint preparation of JSAs. In order to further smooth the implementation process for both the PRSP process and the HIPC Initiative, a Bank-Fund Joint Implementation Committee (JIC) was set up in May. The Committee, which meets at least bi-weekly, monitors progress, deals with emerging policy and process issues, coordinates production of reports and briefings to the Executive Boards, and works to support consistent and effective external communications. It has set up three Task Groups to deal with specific issues with respect to: (1) governance, public expenditure, and expenditure tracking; (2) Bank and Fund roles regarding country issues and policy, and respective approaches to conditionality; and (3) options for accelerating HIPC Decision Points.

30. The JIC also takes the lead in designing initiatives to respond to emerging challenges (discussed in the sections that follow) and in guiding other activities designed to facilitate the PRSP process, such as capacity building, through learning events for PRSP country officials and development partners and preparing and updating the PRSP sourcebook; measures to enhance program transparency and information dissemination; and preparation of Guidelines for I-PRSPs and their accompanying JSAs (Annexes III and VI).

B. Using the I-PRSP to Balance Timeliness with Quality

31. The I-PRSP is serving reasonably well as a means to launch country-driven efforts to develop participatory poverty reduction strategies without delaying access to concessional assistance and HIPC debt relief. However, when the PRSP process was designed, it was expected that countries would prepare one I-PRSP and then a PRSP or PRSP progress report on an annual cycle.[3] In practice, some countries (Albania, Sao Tome and Principe, and

[3] See Joint Bank-Fund Paper, *Poverty Reduction Strategy Papers—Operational Issues*, R99-241 and SM/99/290.

Senegal) have indicated in their I-PRSP that they may require more than one year to develop fully participatory PRSPs that adequately address their prioritized poverty reduction efforts. In reviewing other I-PRSPs (Benin, Bolivia, and Chad), the Bank and Fund Boards have noted that the one-year timetable for development of the PRSP proposed by the government appeared ambitious. As implementation proceeds, it is apparent that a number of countries with severe institutional and governance constraints, very limited poverty data and/or a limited tradition of participation (including post-conflict countries) may require two years or more to develop PRSPs.

32. To encourage appropriate balance between providing timely access to interim debt relief and concessional assistance from the Bank and Fund and the need to encourage governments to take the time needed to develop both the content and the participatory processes of a full PRSP, the JIC has proposed that, where countries have not completed a full PRSP within one year of their initial I-PRSP, the authorities could provide a report to the Boards indicating the progress that has been made in implementing their interim strategy for poverty reduction , relating progress to the timetable and action plan set out in the I-PRSP, noting constraints to finishing the process, and providing a credible, time-bound program for PRSP completion.. This report together with an accompanying JSA would form the basis on which the Boards would be asked to judge the eligibility of the country for continued access to concessional lending and interim debt relief.

33. At their meetings on September 5, the Boards of the Bank and Fund agreed with the importance of ensuring the quality and country ownership of PRSPs and noted the possibility that one year might be insufficient for completion. The Boards therefore supported the proposal outlined in para. 32 above.

C. Using Early Experience to Provide More Guidance on PRSP Content and the Joint Staff Assessment

34. The Joint Paper setting out early parameters for PRSPs highlighted five possible elements of poverty reduction strategies. These were: (i) assessing poverty and its key determinants; (ii) setting targets for poverty reduction; (iii) prioritizing public actions for poverty reduction; (iv) establishing systematic monitoring of poverty trends, and evaluating the impact of government programs and policies; and (v) describing the main aspects of the participatory process. These key elements formed the basis of early efforts to develop the PRSP Sourcebook materials[4] designed to provide countries, Bank and Fund staff, and development partners with guidance on examples of good practice in designing the content of

[4] The Sourcebook is posted on the World Bank's external website at www.worldbank.org/poverty/strategies/source/toc, and can be accessed from the IMF's external website at www.imf.org/external/np/prsp.

nationally owned poverty reduction strategies and provided early guidance to staff in undertaking the JSA. While experience with I-PRSPs and PRSPs has confirmed the utility of this framework, some key aspects of poverty reduction—especially with respect to items (iii) and (v) above—were not well covered in the earlier Board papers.

35. Having clear expectations with respect to core or standard elements of a PRSP is in no way inconsistent with the aim of flexibility and country ownership. For example, expecting that the PRSP will be clear about priorities does not diminish the country's scope to set those priorities. While the shift to country-ownership will allow substantially more leeway in terms of policy design and choices, the assessment of PRSPs should be based on both international and country specific experience on what has been found to be effective in lowering poverty. At the same time, any attempt to define exhaustively the set of core elements would be excessively prescriptive. With this tension in mind, the JIC is in the process of developing further guidance to Bank and Fund staff on the criteria to be used in JSAs, specifically with respect to prioritizing public actions for poverty reduction and describing the participatory process. It is intended that further guidance will be made available in draft for discussion with countries, development partners, and the general public, before final dissemination to Bank and Fund staff. The staffs are also revising the first chapter of the PRSP Sourcebook, reflecting early experience with the content of PRSPs and I-PRSPs (and proposed internal guidance on the JSA) in order to provide a synthesis that countries might find useful as they develop their own PRSPs. Finally, another important area—how to deal with cross-cutting issues such as gender and the environment—will also be addressed in the Sourcebook.

(i) Prioritizing public actions for poverty reduction

36. The priority public actions to raise sustainable growth and reduce poverty constitute the heart of a PRSP. Staff are expected to assess whether these priority public actions are clearly stated and consistent with what is known of the linkages between different policies and their appropriate sequencing. In order to clarify the nature of this task, it is worth distinguishing four key areas of content that a JSA would be expected to cover:

- Appropriate sectoral policies and programs;
- Macro and structural policies to support sustainable growth in which the poor participate;
- Realistic costing and appropriate levels of funding for major programs; and
- Improving governance—including public sector financial management and accountability.

Every PRSP would be expected to provide an adequate treatment of each of these four areas. What is covered within each area will, of course, differ across countries. It is unlikely that any single PRSP, especially in the first round, would systematically cover all of the issues in the same degree of detail, and JSAs will judge whether, overall, and with respect to each of the four areas, the PRSP is satisfactory. This judgment will be based on country conditions and will have to assess the extent of progress the country has made in addressing these issues relative to its starting point.

(ii) Describing the main aspects of the participatory process

37. As is widely recognized, it is not appropriate to have rigid guidelines for participation since countries' contexts and political systems vary. However, both governments and civil society groups are requesting clarity on the key elements of a participation process. Ideally, the process for selecting groups to include in the process should involve joint decision making by government and Civil Society Organizations (CSOs). Transparent decisions as to who participates, when, and how, will add legitimacy to the participatory process. Participation will vary from country to country, depending on the political economy, but over time would be expected to bring in groups such as parliament, local government, local representative bodies, civil society, the private sector, and excluded segments of society. An effective PRSP process would include direct consultations with groups of the poor which can contribute towards a PRSP in substance (analysis of poverty), process (participation in policy making) and implementation (monitoring of results).

38. To provide greater clarity and to help structure the description of the participatory process, the JSA should focus on the following questions:

1. Does the I-PRSP include: (a) a plan for the participation process (including estimates of the costs of implementation) with a time line for the preparation and dissemination of the PRSP; (b) a description of key stakeholders; (c) a description of existing governance structures and participation processes; and, (d) if consultations took place, a summary of who was consulted for the I-PRSP preparation and an outline of major discussions?
2. Does the full PRSP include: (a) a description of who was consulted, when and how, compared with the plan detailed in the I-PRSP; (b) a review of the major discussions emerging from the consultations; (c) a summary of the impact of the consultation process on the design of the full PRSP; and (d) a plan for participatory involvement in the implementation and monitoring of the PRS?

39. At their meetings on September 5, the Boards of the Bank and Fund endorsed the proposal for using early experience to provide more guidance to staff on assessing core content of PRSPs, while noting that this guidance should not compromise the principle of country ownership and home-grown strategies based on individual country conditions.

D. Identifying the Poverty Focus of Public Expenditures

40. The capacity to track poverty related spending, including that financed by debt relief, has been identified as a key element of an effective poverty reduction strategy. The JIC has made it one of its early priorities to increase support for this effort, taking a two-handed approach. Over the longer term, efforts will focus on strengthening country capacity by improving budgetary and accounting systems, in collaboration with other donors. In the shorter term, while these systems are being developed, the priority will be to identify and

strengthen existing mechanisms to track spending on poverty reduction in a way that does not detract from longer term capacity building. Such measures might include implementing expenditure tracking surveys, monitoring budgetary allocations, and evaluating the outturns of selected programs and projects that have a poverty focus. New guidelines will require Bank and Fund staff to discuss in JSAs country initiatives to increase transparency and accountability in the public sector and to tackle corruption. The JIC has so far focused on issues of expenditure monitoring in five HIPCs approaching their decision points—Mali, Cameroon, Malawi, Zambia, and Rwanda. The next step will be to develop action plans for improving tracking systems in all HIPCs which have reached or are expected to reach decision points in the current calendar year. (See paragraphs 22-23 of the accompanying HIPC report.)

E. Streamlining and Aligning Conditionality to the PRSP

41. The PRSP approach envisions that Fund and Bank operations should focus on key measures to support the priorities identified in the PRSP, and that conditionality in Fund and Bank operations should be applied according to institutional responsibilities.[5] Given the emphasis on country ownership and ex-ante social impact analysis of structural reforms, it is expected that there will be variation across countries in the pace and sequencing of reforms that will need to be reflected in the design of Bank and Fund lending instruments. Furthermore, it is expected that the development of a PRSP through a participatory process will improve broad country ownership for those reforms that are included in the PRSP and will bring in stakeholders (other than the Fund and the Bank) who will press for their implementation. These considerations suggest that the Fund and the Bank should not seek to reflect all of the key policy measures from a PRSP as conditionality in related lending operations.

42. Progress in implementing this new approach has thus far been limited. Recent PRGF programs still include conditions in some areas for which the Bank is supposed to have primary responsibility, even when such conditions are not obviously critical to the successful implementation of the macroeconomic framework. In most cases, this reflects the fact that the Fund arrangements pre-date the launch of the PRSP approach. In other cases, the Bank has not had appropriate and timely lending operations which could support key structural, social and institutional reforms.

43. Bank Directors have recently discussed the concept of a Poverty Reduction Support Credit (PRSC) in countries where there is a PRGF and/or where the Bank is providing adjustment lending.[6] As currently envisaged, the Poverty Reduction Support Credit (PRSC)

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[5] These are summarized in the joint Bank-Fund paper, *Poverty Reduction Strategy Papers—Operational Issues,* R99-241 and SM/99/290.

[6] See *Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries*. Operations Policy and Strategy, July 21, 2000.

would be a series of annual programmatic structural adjustment credits to support implementation of the Poverty Reduction Strategy with clear performance benchmarks, including results indicators and policy measures within the areas of the Bank's primary responsibility. The series of PRSCs would be intended to cover the three-year life of the PRSP, would be synchronized with the government's budget cycle, and would be imbedded in the CAS (see below).[7] New PRGF arrangements that follow a PRSP would limit their conditionality to areas within the Fund's primary responsibilities.[8]

F. Clarifying the Linkages Between PRSPs and the IDA Assistance Program

44. Countries and their development partners are looking to the Bank in particular for leadership in developing country programs that link its operational products to poverty reduction strategies. The Joint Paper did not specify the date by which the Bank would require a PRSP as the foundation for an IDA CAS, nor did it specify how the Bank would ensure that a country-driven vision of poverty reduction priorities would lead to strategic selectivity in the choice of instruments. Bank management has recently clarified these issues.[9] In brief, the key elements of the Bank's country program in PRSP countries would be:

- A full PRSP would provide the country's vision, priorities, and monitorable indicators for poverty reduction. The JSA would accompany the PRSP, evaluating its soundness as a context for the Bank's strategy;

- A minimum set of current "due diligence" Economic and Sector Work (fiduciary assessment, public expenditure review, poverty assessment, country economic memorandum/social and structural review) would be in place to provide the underpinnings for the JSA and CAS;

- A CAS, summarizing the Bank's diagnosis of the links between policy actions and poverty outcomes and its business program for the country, would accompany or shortly follow the presentation of the PRSP-JSA package to the Board. The CAS would set out the lending and nonlending services to be deployed in the country over the medium term, and explicitly link Bank roles and comparative advantages to the actions of other development partners; and

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[7] Other IDA lending operations could also be conditional on the government's successful pursuit of specific PRSP measures.

[8] Treatment of conditionalities in areas of overlapping responsibility could be handled according to the country circumstances, case by case.

[9] See *Supporting Country Development: World Bank Role and Instruments in Low and Middle Income Countries*. Operations Policy and Strategy, July 21, 2000.

- An evaluation of country and Bank performance in achieving poverty reduction outcomes to gather lessons for the subsequent PRSPs and CASs.

45. After July 1, 2002, IDA CASs presented to the Bank's Board would normally be based on a PRSP. Subsequently, all Bank lending and nonlending activities in IDA countries will be organized under a CAS business plan responding to the PRSP. In the interim, the timing and sequencing of CASs relative to I-PRSPs and PRSPs will need to be decided on a case-by-case basis, but to the extent possible, CAS Updates and CASs will be timed to follow I-PRSPs and PRSPs.

ANNEX I: JOINT BANK-FUND NOTE ON CDF-PRSP LINKAGES

THE COMPREHENSIVE DEVELOPMENT FRAMEWORK (CDF) AND POVERTY REDUCTION STRATEGY PAPERS (PRSP)

JOINT STATEMENT BY JAMES D. WOLFENSOHN AND STANLEY FISCHER, APRIL 5, 2000

The Comprehensive Development Framework (CDF) was proposed by the World Bank in early 1999 as a means by which countries can manage knowledge and resources to design and implement effective strategies for economic development and poverty reduction. It brings together many current trends in development thinking and is centered on a long-term vision—prepared by the country through a participatory national consultation process—that balances good macroeconomic and financial management with sound social, structural, and human policies. The CDF, however, is not a blueprint. It is voluntary, and each country must decide on, and own, its priorities and programs. In order to ensure the most effective use of human and financial resources, the CDF emphasizes partnerships between government (at the national, and local levels), civil society, the private sector, and external assistance agencies. It encourages coordination to improve efficiency and coherence in the use of financial flows and services, and to take advantage of synergies among development partners. In addition, as the international community has increasingly come to recognize, partnership and coordination of efforts can enhance the capacity of governments to manage foreign development assistance.

The Poverty Reduction Strategy Paper (PRSP) is based on CDF principles. It integrates poverty reducing policies into a coherent, growth oriented macroeconomic framework. As with the CDF, national governments are responsible for the preparation of PRSPs with the participation of domestic and external partners. External partners are encouraged to assist governments in preparing PRSPs, and to link their development efforts to them. A PRSP must be broadly endorsed by the Bank and Fund Boards to provide a basis for both institutions' programs in low income countries, and for countries to obtain debt relief under the HIPC Initiative. Thus, the PRSP is an operational vehicle—which can be a specific output of the CDF or of processes based on CDF principles—that is intended to translate a country's poverty reduction strategy into a focused action plan. Indeed, countries using the CDF (such as Ghana, Uganda, and Bolivia) have been at the forefront of those successfully preparing PRSPs.

The CDF and PRSP should be mutually reinforcing. The PRSP process will focus the attention of a large number of governments on CDF principles. It will also ensure more effective collaboration between the Bank and the Fund in supporting countries, as specifically requested by their major shareholders. The PRSP inevitably brings with it some challenges. First, there is the challenge of allowing the time needed for the development of a fully participatory process while not delaying the delivery of debt relief or development assistance. Second, there is the need to ensure that all development partners are also included fully and early in the process. Third, care needs to be taken to ensure that country–led and owned processes are not weakened by the need to produce PRSPs or progress reports according to an annual timetable. We are committed to working together with countries and our development partners to meet these challenges and reduce poverty.

ANNEX II: PRINCIPLES AND OPERATIONAL GUIDELINES FOR IMPLEMENTING THE PRSP APPROACH

The principles and operational guidelines for implementing the PRSP approach were described in a joint Bank-Fund paper, "Poverty Reduction Strategy Papers—Operational Issues" (R99-241 and SM/99/290: December 10, 1999). The joint paper summarized the five ***core principles*** underlying effective and sustainable poverty reduction strategies and the Poverty Reduction Strategy Papers (PRSPs) that embodied them. In line with the principles of the Comprehensive Development Framework (CDF), strategies (and PRSPs) would need to be:

- country-driven and owned, based on broad based participatory processes for formulation, implementation and outcome-based progress monitoring;
- results-oriented, focusing on outcomes that would benefit the poor;
- comprehensive in scope, recognizing the multidimensional nature of the causes of poverty and measures to attack it;
- partnership-oriented, providing a basis for the active, coordinated participation of development partners (bilateral, multilateral, and non-governmental) in supporting country strategies; and
- based on a medium- and long-term perspective for poverty reduction, recognizing that sustained poverty reduction cannot be achieved overnight.

In ***operational*** terms, the paper stressed that there could be no single blueprint for a PRSP. Rather it should reflect countries' individual circumstances and characteristics. Nevertheless it identified some key elements of a basic commonality of approach. Thus, PRSPs should:

- build where appropriate on countries' existing poverty strategies;
- ensure consistency between national macroeconomic, structural and social policies, and the goals of poverty reduction and social development;
- translate long-term goals into annual (or six-monthly) targets covering a three-year time horizon for intermediate indicators of progress with respect to poverty reduction outcomes; and
- address a set of core questions—what are the key obstacles to growth and poverty reduction, national objectives and targets (including intermediate indicators) against which progress might be measured, strategies and action plans for implementation, monitoring and evaluation arrangements, external assistance prospects, and participatory processes to be adopted?

It was recognized that preparation of country-owned, participatory PRSPs could take up to two years. In order not to delay progress in providing urgently needed HIPC debt relief and support from the Fund's Poverty Reduction and Growth Facility (PRGF), it was proposed that countries could initially prepare ***Interim PRSPs*** (I-PRSPs) in connection with HIPC and PRGF implementation. I-PRSPs would have a simpler structure and content than full PRSPs, but would, at a minimum, include a statement of commitment to poverty reduction, an outline of the nature of the poverty problem and of existing government strategies to tackle it, and a timeline and process for preparing a PRSP in a participatory fashion, together with a three-year policy matrix and macroeconomic framework (of which the outer years would be tentative).

It was proposed that PRSPs or I-PRSPs, accompanied by Joint Staff Assessments (JSAs) prepared by Bank and Fund staffs, would be considered by the Executive Boards of the two institutions in connection with HIPC Decision Points and Completion Points; new PRGF arrangements or reviews of existing ones; and (not later than January 1 2001, in light of experience during calendar 2000) IDA high-case and adjustment lending (except in special circumstances such as emergency or crisis situations).

ANNEX III: BANK-FUND PROGRAM SUPPORT INITIATIVES

1. Initial developments with respect to Bank-Fund support for the program were noted in the April Progress Report. Since then, the Bank and Fund have pressed forward with efforts to facilitate the program in a range of areas, some of which are discussed below.

2. ***Capacity building: Sourcebook.*** As noted in the April Progress Report, Bank and Fund staff have prepared a PRSP Sourcebook that offers guidance and useful references for countries preparing PRSPs. The Sourcebook is not intended to be a "how to" blueprint, but rather as a tool to be used selectively by countries to complement national strategies and approaches to poverty reduction. It is also a "living document" which is expected to change in light of experience and comments—for example, through improving utility by simplifying and condensing material where appropriate; through enhancing the relevance of topical coverage in line with evolving country needs; and through revision as necessary to reflect early experience, e.g., with respect to additional guidance on PRSP content (Part III.C). 700 hardback copies have already been distributed; the text is being translated into French, Portuguese, Spanish and Russian, and is expected to be distributed by field offices.

3. ***Capacity Building: Learning Program.*** In addition to the Sourcebook, country preparation of PRSPs is being supported by a series of initiatives, prepared by Bank and Fund staff involved in the program and the IMF and World Bank Institutes. Two learning events have already been held: in Washington in April (attracting over 300 participants from PRSP countries, development partners—multilateral and bilateral agencies, and NGOs—and Bank and Fund staff), and in Yamoussoukro, Cote d'Ivoire in June (focusing on counterpart teams from eight African countries). A third event is planned in Moscow in October, focusing on six of the nine PRSP countries in Eastern Europe and Central Asia. A fourth event in Asia is tentatively scheduled for the winter.

4. As well as formal learning events, plans are under consideration for expanding support countries' teams preparing PRSP documentation (for example, through videoconferencing and expansion of website materials); for a set of World Bank Institute courses for country counterparts covering specific skills that are critical to the PRSP process; and for the possible establishment of a Poverty Reduction Learning Network of learning centers located in PRSP countries, designed for both policymakers and civil society participants in the process.

5. Finally, expanded support is being provided to Bank and Fund staff working with country teams in the form of "clinics" covering the PRSP process itself and more specific topics tailored to the special needs of individual countries and of staff working to support a particular country's PRSP. The Bank and Fund also recognize the need for internal culture change, so as to dispel perceptions of dominance of the process, or "business as usual"; internal training therefore puts special stress on the core principle of country ownership.

6. ***Transparency and Information Dissemination: PRSP Websites.*** In order to disseminate information on the program in a transparent and easily accessible fashion, the

Bank and Fund have consolidated material previously available on different sites onto dedicated PRSP sites on the institutions' external websites. The PRSP sites currently contain core information such as an indicative timetable for preparation of country-owned interim and full PRSPs, basic policy papers on the program and related documents, and the PRSP Sourcebook (para.2 above) including a facility for commenting on it. The websites also contain selected country interim and full PRSPs. In principle, it is intended to post all such documents, along with Joint Staff Assessments (JSA) of them and summaries of the relevant Board discussions on the PRSP sites. In cases where countries wish their documents not to be posted, this decision would be noted in the JSA.

7. The staffs are also working on the potential for a range of interactive features and the PRSP websites, including videoconferencing, public consultations on important program developments, collaborative workshops for NGOs and civil society, and material related to outreach and learning events (including video clips of past learning sessions).

8. ***I-PRSP Guidelines***. Since early implementation has mainly involved, and will continue to involve through the end of 2000, preparation of I-PRSPs, specific guidelines have been prepared on suggested common elements of I-PRSPs and the expected content of JSAs commenting on them . With respect to I-PRSPs, the Guidelines (given in full in Annex VI) re-emphasize the principle of country ownership, but elaborate on the suggested coverage of country documents. With respect to JSAs for I-PRSPs, the Guidelines outline a series of questions to be reviewed with respect to (1) treatment of core content and process issues; (2) promising features, and desirable areas of special focus for countries, as they develop full PRSPs; (3) potential risks; (4) important analytical gaps to be filled; (5) the realism of plans to produce full PRSPs; and (6) areas where the Bank, the Fund, and other development partners can help countries in the process.

ANNEX IV: SELECTED PARTNER GUIDELINES AND ASSESSMENTS

1. Some official bilateral and multilateral agencies and NGOs have issued their own assessments of the PRSP program (and in some cases, guidelines for working with it). This is a welcome development, indicating the strength of interest in the program. Seven examples of these assessments are summarized below.

2. ***The European Commission (EC)*** issued "Poverty Reduction Strategy Papers: Guidance Notes" in May. This document stressed the Commission's strong support for the program, and noted that "the future importance of PRSPs in the design and development of development assistance, including that provided by the Commission, cannot be over-emphasized." It noted however, that the PRSP concept and approach would only work if developed in the manner intended and if the BWIs (Bank and Fund) are able to change the way in which they have operated in the past. The Notes see two roles for the Commission: playing an active part in PRSP design along a range of core program parameters, and providing assessments of country documents' content prior to BWI Boards' consideration of country documents. The document also emphasizes coordination of donor inputs into the design process, and the use of existing EU technical assistance to actively support governments in PRSP design and provision of new technical assistance specifically focused on PRSP requirements.

3. ***EURODAD (the European Network on Debt and Development)*** has prepared "An Independent Guide to PRSPs" that provides a detailed overview and analysis of the program, and raises a number of issues and questions. The Guide argues that BWI dominance remains an issue (partly because it sees the program description as reflecting traditional Bank and Fund priorities, partly because country capacity limitations will constrain them to turn to the BWIs for help in strategy formulation). It asks the BWIs to be ready to accept that genuinely country-owned PRSPs "may not look like a standard [Bank] document." EURODAD also raises a number of issues with respect to PRSP content. It suggests that the PRSP program (including the use of I-PRSPs) while welcome in principle, may be holding up HIPC debt relief. It questions the role of the Fund, notes concerns about realistic expectations for donor coordination, and shares the concern expressed by others (para. 22) about participatory processes. The Guide concludes with some thoughts about the need for change among bilateral donors and NGOs. Despite the issues raised, the report notes that "the PRSP process DOES have potential as a tool that developing countries can use to implement genuinely country-owned and participatory poverty reduction strategies."

4. An NGO, ***Oxfam,*** has stated that the PRSP provides an important opportunity for re-focusing development on poverty as a priority. However, Oxfam considers that, to date, change in Fund-supported programs appears to be limited. For example, IMF macro-economic conditionality for countries engaged in the PRSP process remains stringent; PRGFs are not different from previous ESAFs (for e.g., Tanzania and Honduras); and there are no references to any change in the macro-economic framework with respect to integrating poverty reduction concerns. Oxfam also notes that it remains unclear how policy design will be altered to promote the international development goals, and to incorporate consideration

of equity and distributional effects of growth. It recommends that program design must analyze trade-offs around policy choices, and that re-design and/or compensatory measures must be developed for those adversely affected. In this regard, collaboration with other donors, particularly the UN agencies, is key.

5. Oxfam, like EURODAD, proposes that HIPC should be de-linked from the PRSP. It considers that countries should gain entry into HIPC at the decision point if they can demonstrate how funds will be channeled to reducing poverty, preferably by using a Poverty Fund. Further, Oxfam argues that the I-PRSP is delaying debt relief because documents are developed in a slow and bureaucratic way, resulting in large complex documents with confused direction from the IMF and World Bank. On participation, Oxfam welcomes the explicit references in the guidelines to include civil society in the development of national targets and implementing and monitoring. However, it stresses that civil society should also be involved in key policy making in areas such as macro-economic choices, privatization, the role of markets, land reform, social sector areas, or the prioritizing of budget expenditures, governance and monitoring. Policy choices and trade-offs, with respect to poverty reduction and human development goals, should be explained to ensure that policy reform is pro-poor, as well as publicly understood and owned. Oxfam is concerned that there is a lack of analysis in this area.

6. Another NGO, ***"Bread for the World,"*** has prepared a "Dossier" on the PRSP and PRGF programs that evaluates the former on the basis of five announced intentions for the program—(1) the centrality of poverty as an institutional goal for the BWIs; (2) country ownership/participatory processes; (3) the use of outcome indicators as a basis for access to debt relief and loan support; (4) the concept of consistency among poverty reduction strategies, structural policies, and macroeconomic objectives; and (5) donor coordination potential. While offering cautionary judgments in all these areas, the "Dossier" also notes their potentially positive aspects and offers suggestions for realizing them; the relevant chapter concludes that the program "shows the significance and seriousness of the IMF and World Bank policy reform package.....the optimistic view is that the PRSP process will contribute to changing the priorities of both institutions." The "Dossier" concludes with some views—mainly critical and skeptical—from developing countries about the program's prospects. Finally, it notes that the PRSP represents a new development in Bank and Fund lending policy with some potential, but only if certain conditions are met. In particular, it notes the importance of providing civil society in developing countries with information and transparency about the new process; the need to ensure that consultation with civil society becomes a genuinely participatory process in which the recommendations of non-governmental actors can influence policy; and the need for flexibility in macroeconomic prescriptions.

7. ***The Strategic Partnership with Africa (SPA)*** assessed the PRSP program at its June, 2000, meeting in terms of experience to date with the process, the status of the I-PRSP program, and donor policies and practices. On process, it notes improvements in civil society involvement and consultation, but warns that "the process is too fast to allow genuine participation," that consultation is sometimes limited to central government bodies, and that

bilateral donors and other partners may be insufficiently involved. The SPA suggests that in several cases the BWIs are still leading the process. Meanwhile, support for local capacity building is increasing, but many donors have as yet not received specific requests for help. With respect to I-PRSPs, SPA considers that the linkage with full PRSPs remains unclear, and that there are some doubts that I-PRSPs will lead to good PRSPs. It also notes the leadership role of the BWIs and the tension between speed, ownership, and quality. On donor policies, the SPA evaluation notes many donors' prior commitment in principle to poverty reduction, and the view of many donors that PRSPs could help strengthen the link [between policy and action]; it also notes that for a number of donors "PRSPs will provide a basis for their support." The analysis notes the positive new aspects of the program, but emphasizes that success will depend on true country ownership. It offers a number of specific "policy messages" mainly directed at process issues.

8. The United Kingdom's ***Department for International Development (DFID)*** has prepared an overview paper ("Poverty Reduction Strategy Papers: DFID Expectations") which provides detail on what country documents might cover, in line with basic Bank-Fund documents but expanding on areas that the government considers of special importance (such as governance and environmental sustainability), and notes important areas where PRSPs can help improve existing practices (such as conditionality, donor coordination and lending modalities).

9. DFID has also prepared a document "Interim PRSPs: Experience So Far—a Synthesis of Reports from DFID Staff," based on early PRSP experience. The synthesis notes a number of important points. Following an initial learning period, HIPC governments in particular are strongly committed to the process, but non-HIPC IDA countries are less well prepared; awareness that PRSPs are required for high case IDA lending is apparently not widespread. The Bank and Fund get mixed reviews, basically related to failure to change behaviors ("business as usual") in the new country-centered context of the PRSP process. The paper also offers mixed views from field staff on coordination between the Bank and Fund and other donors. It covers a number of other issues, including participation, building on existing country strategies, governance, and I-PRSP content. On participation, DFID field staff note a range of problems, including confusion about the extent of participation required for I-PRSPs and the problem of managing expectations, but concludes that overall "the process of drafting I-PRSPs has resulted in higher levels of engagement between governments and wider civil society." With respect to building on existing strategies and processes, the paper notes that the Bank and Fund seem to have taken different approaches in different countries with respect to basing the PRS on existing strategies, and that DFID staff have called for better linkage between PRS processes and pre-existing poverty reduction coordination mechanisms. With respect to budgetary processes, the paper notes that in some cases the PRSP is "sensibly building on MTEF processes." On governance, DFID staff felt overall that the Bank and Fund saw the process as essentially technocratic, and had in some cases not appreciated the depth of political change required to make it effective. The paper reports on staff views on the content of some of the early I-PRSPs, noting data variability, the extent to which analyses are still substantially focused on social services and on demonstrating that public expenditure will be refocused onto these areas. It concludes with a brief analysis of how far I-PRSPs

provide “road-maps” to PRSPs. While most PRSPs have plans for full PRSP preparation, they are considered to be lacking in discussion of “what policy analysis is missing, or what capacity building is required and what more needs to be done to feed into the PRSP.” Consultation plans often lack detail. Also noted is “uncertainty about what the IFI Boards expect in terms of policy commitment in the I-PRSP and how much is necessary to provide the basis for a PRSP,” but the paper also makes the point that expectations will necessarily vary depending on initial conditions (whether countries are broadly “on track” or not).

10. ***The Africa Group One Constituency*** (representing 21 African governments) prepared in July a paper dealing *inter alia* with PRSPs, in connection with the governors' meeting with the Fund's Managing Director. The paper notes the huge challenge and multidimensional nature of poverty in Africa, and welcomes the PRSP process as serving as the focus for members' individual poverty reduction strategies, (noting that it could be “an immensely valuable exercise” for focusing on specific policies for poverty reduction and identifying short-and medium-term constraints); it also welcomes the process as a basis for multilateral and bilateral institutions' assessments of country strategies. It welcomes the establishment of the JIC, and hopes that African countries' views be incorporated into its work. But it also notes that the PRSP process as a whole is time-consuming, resource-intensive and costly for countries, and is being undertaken in the context of limited human and financial resources. Given capacity limitations, “governors suggested that the requirement for country preparation of fully developed PRSPs be spread over a longer period than the current three-year time frame and suggested instead a five-year period.” The paper further notes specific areas of difficulty for countries (e.g., compilation of reliable indicators for social development and establishment of fully elaborated MTEFs). It asks that the Fund both increase its own financial and technical assistance to countries preparing PRSPs, and help mobilize international donor community support for this purpose, “to enable the PRSP to become, as it had been intended, a process rather than an event.” On ownership/participatory processes, it notes that country-specific factors will mean that the extent of ownership based on participation will vary, and that while civil society participation should be as broad as possible, “the ultimate decision on the extent of participation would have to be taken by the authorities themselves.” The paper states that there is “an inherent tension” between the concept of country ownership and conditionalities. It recommends a streamlined approach, confining PRGF conditionalities to “a smaller core of conditions clearly associated with the macroeconomy.”

ANNEX V: AGREEMENTS WITH OTHER AGENCIES

1. The PRSP process is intended to bring about greater aid coordination as donors align their support around countries' poverty strategies. In keeping with country ownership, it is hoped that countries themselves will manage the process of coordination, and will develop their strategies in an open and inclusive manner, involving all key donors and other partners. Where the Bank and Fund are involved in PRSPs, they are determined to work collaboratively with other donors. To this end, the Bank and Fund have made formal cooperation agreements with other Multilateral Development Banks (MDBs) and the United Nations Development Programme (UNDP) covering collaboration on the PRSP program. Further, the Bank is in the process of formalizing separate agreements with the International Labor Office (ILO) and with the United Nations Children's Fund (UNICEF). Each of these agreements is summarized below.

MDB/IMF Protocol

2. The protocol sees effective action on poverty reduction as being increased by a joint commitment to support for the development of country-owned PRSs; to lending and other assistance to support the strategies themselves; to better coordination that will free up governments' resources; to minimizing duplication of effort and increasing synergy with respect to policy dialogue, programs, projects, and technical assistance; and to expanding knowledge and understanding by listening to country stakeholders and each other.

3. While the MDBs and the IMF will continue to have separate country strategies/business plans, these will be consistent with and increasingly (and in some cases completely) be based on national PRSs.[1] Country authorities will take the lead in preparing their PRSs and in coordinating the participation of MDBs/IMF. Countries may seek MDB/IMF support in strategy preparation and determine a lead or focal agency; agency contributions will be consistent with existing MDB/IMF collaboration agreements. MDB/IMF analytical work will be conducted in a coordinated manner, reflecting relevant expertise and mandates, as will assistance on policy, projects, and programs. Emphasis will be put on a partnership approach, selectivity, and different institutions' comparative advantage.

4. The protocol also envisages institutions working together on strategic regional and global cross-cutting issue; on collaborative implementation arrangements worked out on a country-by-country and sector-by-sector basis; on information exchange; and on reconciling any differences in points of view.

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[1] Due account will be taken, however, of the unique mandate of the EBRD to foster transition to a market economy rather than to promote poverty reduction directly.

World Bank-UNDP Agreement

5. The agreement is designed to foster greater collaboration between the World Bank and UNDP in support of country-owned poverty reduction strategies. The institutions have agreed to work more closely in a range of PRSP countries where governments have asked for their support. Countries include Bolivia, Nicaragua, Honduras, Benin, Madagascar, Ghana, and Vietnam. The agreement is intended to minimize duplication of effort, and foster greater exchange of information and analytical studies. The institutions will meet regularly to review their collaboration, identify any differences of approach and reconcile these, and share best practice.

6. Examples of Bank-UNDP collaboration are: Guinea Bissau, where in work to support the government's development of poverty diagnostics, the Bank is leading on quantitative aspects, and UNDP on participatory, qualitative assessments; in Mali where the UNDP and the Bank are constructively engaged in supporting the government's poverty reduction strategy, based on the National Strategy for Poverty Alleviation, which was supported by UNDP; in Ghana, where UNDP is the focal point for bringing together donors in support of the government's poverty reduction efforts and in advising on issues of governance.

World Bank-ILO and UNICEF Agreements

7. The Bank is also in the process of formalizing cooperation agreements separately with the ILO and with UNICEF. The agreements will be similar to the one between the Bank and UNDP, in that the agencies will commit to work cooperatively in a specified set of countries where they are supporting country-led PRSPs, and to monitor this collaboration so that best practice can be extended to other countries and any areas of potential conflict resolved quickly. The set of countries is still to be finalized, but the provisional list in the case of ILO is Cambodia, Honduras, Mali, Nepal, and Tanzania; and in the case of UNICEF, Tanzania and Vietnam.

ANNEX VI: INTERIM POVERTY REDUCTION STRATEGY PAPERS (I-PRSPS): GUIDANCE ON I-PRSPS AND JOINT STAFF ASSESSMENTS OF I-PRSPS

Joint Note to World Bank and IMF staff
(Approved by the Joint Implementation Committee)

1. Since the two Boards' approval of the Joint IMF/World Bank Paper on "Poverty Reduction Strategy Papers: Operational Issues," a number of staff have asked for further guidance on the suggested common elements of Interim PRSPs (I-PRSPs) and on the expected content of the Joint (Bank-Fund) Staff Assessments (JSA) of I-PRSPs. This note provides such guidance, recognizing that I-PRSPs are country-owned documents for which the IMF and the Bank should not specify a rigid blue-print.

Background

2. In a renewed effort to reduce global poverty, the World Bank and the IMF will support low-income countries to develop and implement more effective poverty reduction strategies.[1] These country-owned poverty reduction strategies would be described in a Poverty Reduction Strategy Paper (PRSP). This PRSP will provide the basis for debt relief and concessional lending by the Bank and the Fund.[2]

3. A PRSP, I-PRSP or PRSP progress report supported[3] by both Boards within the preceding 12 months will be a condition for:

- HIPCs to reach a decision or completion point;
- approval of PRGF-supported arrangements or reviews thereunder[4]; and

[1] This new approach is laid out in the Joint Bank-Fund Paper on "Poverty Reduction Strategy Papers: Operational Issues," which was discussed at the Bank Board on December 20, 1999 and at the Fund Board on December 22, 1999; the two Boards endorsed the approach proposed in this paper (referred to as the "Joint Paper"). For the Bank, the new approach—endorsed by the Bank's Board—is also laid out in "PRSPs: Internal Guidance Note," Operations Policy and Strategy, January 21, 2000. For the Fund's PRGF, the new approach, endorsed by the Fund's Board, is laid out in "The Poverty Reduction and Growth Facility – Operational Issues," December 13, 1999.

[2] Including under the enhanced HIPC Initiative and the Poverty Reduction and Growth Facility (PRGF).

[3] The Bank and Fund Boards would consider the overall strategy in the PRSP as an integrated whole; each institution would focus on those policies and programs it supports in its area of responsibility and as a basis for its lending operations. The Boards would decide whether the PRSP provides a sound basis for Bank and Fund concessional assistance and, if applicable, for reaching a HIPC decision point.

- high-case IDA lending and IDA adjustment lending, except in special circumstances such as emergency or crisis situations.[5] It should also be noted that a PRSP or I-PRSP, when available, will provide the country context for the Country Assistance Strategy (CAS). After July 1, 2002, all IDA CASs presented to the Bank's Board would need to be based on a PRSP. In the interim, the timing and sequencing of CASs relative to I-PRSPs and PRSPs will need to be decided on a case-by-case basis, but to the extent possible, CAS Updates and CASs will be timed to follow I-PRSPs and PRSPs.

4. Recognizing that for many low-income countries it will take up to two years to develop a fully elaborated poverty reduction strategy in a participatory manner,[6] the Boards of the Bank and the Fund were concerned that this process should not delay on-going Bank and Fund concessional assistance or HIPC debt relief to the countries concerned. An I-PRSP could therefore be produced as a means of avoiding delays in the transition period to a full PRSP. The objectives of producing an I-PRSP are to summarize the current knowledge and analysis of the poverty situation, describe the existing poverty reduction strategy, and, perhaps most importantly, lay out the process for producing a fully developed PRSP in a participatory fashion. In line with the expectation that a PRSP could be produced within two years, countries would normally submit only one I-PRSP before moving to a PRSP a year or so later.

Interim PRSPs

5. I-PRSPs must be produced by governments, i.e., the document should be owned and written by the government (or their designated representatives) and should not be written by any donor staff, including Bank and Fund staff. Since these are government documents, the following text provides "guidance" only in terms of the expectations of the international community and the lessons from early country experience. Each government will need to draw on this guidance in ways that suit the specific situation of that country. The intention is that I-PRSPs should be short and relatively easy to produce. They should draw as much as possible on existing work and processes. Because individual countries start from different levels and traditions of participation and need to prepare the I-PRSP under different time constraints, there will be no minimum threshold expected for consultation on an I-PRSP. Nevertheless, governments are encouraged to

[4] The First I-PRSP would not, however, be required for a review under the PRGF that is not associated with a new annual program. If countries have not completed a full PRSP within one year of their initial I-PRSP, the authorities would be permitted to provide a short report to the Boards (in the form of a letter) indicating the progress that has been made in developing their PRSP, according to the timetable and action plan set out in the I-PRSP. This progress report together with a Joint Staff Assessment would form the basis on which the Boards would be asked to judge the eligibility of the country for continued access to concessional lending and interim debt relief.

[5] This condition will become effective at a date to be decided, and that date will be decided no later than January 1, 2001. See the Joint Paper, paragraph 42; and the Internal Guidance Note, paragraph 23.

[6] The possible elements of a full PRSP and the proposed country process for its development and implementation are set forth in Sections III and IV and Appendix 1 of the Joint Paper referred to in footnote 1.

begin the participatory process as early as possible. In the earliest stages, consultation might be focused on the question of the structure and timing of the participatory process for the full PRSP. Some countries have found it useful to include elected and civil society representatives—especially representatives of the poor and groups with a track record of serving the poor—in the country teams preparing the I-PRSP.

6. When the I-PRSP content was discussed at the Bank and Fund Boards, it was felt that, at a minimum, the I-PRSP should include the following key elements:

(1) a statement of the government's commitment to poverty reduction. It would be desirable if the government could indicate its commitment to progress towards the International Development Goals (IDG);[7]

(2) a description of the existing extent and patterns of poverty. Although collection of new data is not likely to be possible within the time-frame of an I-PRSP, countries should be encouraged to exploit existing data sources to provide the fullest possible description of the current poverty situation;

(3) the main elements of its existing poverty reduction strategy—to the extent that it has already been developed and is being implemented—including a description of any participatory processes already undertaken. This could include: (a) a discussion of policy measures necessary to promote sustained, rapid growth (including macroeconomic stability) and to ensure that the poor participate in that growth; and (b) a summary of public programs designed to assist the poor. It would also be desirable for the I-PRSP to clarify the government's near-term priorities within the existing strategy, its available mechanisms for monitoring and evaluating its strategy, the effectiveness of existing policies and programs in reducing poverty, and the current institutional arrangements for ensuring transparency and accountability in the use of public resources;[8]

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[7] The targets of the IDGs (to be reached by 2015, unless otherwise noted) are: reducing by half the incidence of extreme poverty; reducing by two-thirds the infant and child mortality rates and by three-fourths the maternal mortality rate; achieving universal primary education in all countries; providing access to reproductive health services for all individuals of appropriate age; eliminating gender disparities in primary and secondary education by 2005; and implementing national strategies for sustainable development by 2005 to ensure that the current loss of environmental resources is reversed globally by 2015.

[8] If the country is seeking debt relief under the enhanced HIPC Initiative, then the I-PRSP document should articulate the proposed use of the incremental resources for poverty reduction. The HIPC Decision Point document will also indicate the proposed use of the incremental resources, as well as the intermediate indicators that would be used for assessing progress on poverty reduction during the transition phase to a PRSP and to the Completion Point. It would be necessary to select intermediate indicators of progress that could actually be measured within the envisaged time-frame between decision and completion points.

(4) a three-year macro-economic framework and three-year policy matrix.[9] The presentation of the macro-economic framework may be limited to one or two summary tables but could be more extensive if the authorities so desire. The policy matrix should provide a summary presentation of the specific elements of the existing strategy as described in (3) above, indicating to the extent possible the time-frame for on-going policy initiatives. I-PRSPs should note that these policy commitments and targets for the outer years are tentative and will need to be revised when the I-PRSP is replaced by a PRSP; and

(5) a time-line and consultative process by which the (full) PRSP will be developed and the assistance requested from the Bank, Fund, other multilateral and bilateral agencies, and other partners in the preparation of the PRSP. Since substantive work to prepare the poverty reduction strategy should begin as soon as possible, this section of the I-PRSP should include in as much detail as possible:

(a) an identification of the gaps in poverty data and analysis, the program of work designed to fill these gaps (including technical assistance and financing from development partners), and milestones for assessing progress in this work; and

(b) a description of the participatory process that the government will follow for consulting with elected representatives (e.g., Parliaments), key domestic stakeholders, and external development partners on: (i) the poverty reduction goals for society; (ii) the priority public actions to achieve those goals; and (iii) setting up a participatory system for monitoring the implementation of the poverty reduction strategy, once developed. It would be desirable to include: (i) a listing of principal stakeholders to be consulted—the most important of which are membership organizations of the poor (in particular of women) and those with an established track record regarding programs to assist the poor; and (ii) country-specific milestones that give an indication of progress in the participatory process.

Joint Staff Assessment (JSA) of the Interim PRSP

7. The purpose of the JSA (of Bank and Fund staff) is to assist the Boards in reaching a judgment about whether or not the I-PRSP provides a sound basis on which to proceed. It should also indicate clearly to the government the staffs' views on the key issues/questions to address in the preparation of the PRSP. Thus, it should primarily be a forward-looking document. For these purposes, the JSA (which need not be more than 3-4 pages long) should candidly address the following questions:

[9] The macro-framework and policy matrix need not be updated if there is one that was agreed between the authorities, the Bank and the Fund within the previous 12 months, unless this has become seriously outdated because of a change in country circumstances (e.g., for a country in crisis). In the event that there are important changes in the macro-economic or other assumptions between the I-PRSP and a subsequent PRGF arrangement, the changes would need to be underscored in the PRGF document. See "The Poverty Reduction and Growth Facility—Operational Issues" for further details.

- How appropriate/adequate is the government's assessment of the country's poverty situation and its current strategy and policies to reduce poverty, described in Sections (2), (3), and (4) above (i.e., is the "storyline" realistic, given staff knowledge on the country)? What are the features of the strategy that are, in the judgment of the staff, most promising? What are the features that are of concern? What are the main risks (e.g., possible external and internal macro-economic shocks, implementation constraints, weak accountability and poor public budgeting and financial management systems, weak capacity for monitoring and evaluation, etc.) that the government faces in implementing its strategy? What are the key questions, trade-offs, and/or gaps on which the government should focus in developing the PRSP? What are the priority public actions to reduce poverty that the government should pursue during the period of preparation of the PRSP? How well are the poverty reduction strategy and the macro-economic framework integrated? How much more needs to be done to reflect adequately the costs of existing poverty reduction measures in the fiscal framework? To the extent that the preparation of the I-PRSP has led to changes in the content, monitoring, and ownership of the country's policies and programs, it would be useful to flag these in the JSA.
- How realistic is the government's plan (described in Section (5) above) to produce a PRSP? Has the government adequately identified the gaps in poverty data and analysis and made a realistic plan to fill those gaps? Is the timetable realistic, taking into consideration the participation plan? Is the proposed participatory process built on previous participation experiences? Have major stakeholders—including key donor agencies—been informed of the contents of the I-PRSP and the process for developing the PRSP; if not, when is this intended?
- What kind of assistance will the Bank, Fund and other development partners offer to help the government improve their information base, undertake the analysis, support the participatory process, improve systems for financial accountability, and estimate the costs the priority public actions?

8. Assuming that the staffs support the proposed I-PRSP, the concluding paragraph of the JSA should present a joint staff recommendation as follows: "The staffs of the World Bank and IMF consider that this I-PRSP provides a sound basis for the development of a fully participatory PRSP, [for reaching the decision point under the HIPC Initiative], and for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion." This recommendation would be relevant during the period for which this I-PRSP is in effect. Finally, the JSA should attach a table of key Bank/Fund events over the coming year—including Board discussion of the CAS, major Bank loans, PERs, PRGF, PRSP and HIPC Initiative (if relevant).

Publication

9. Consistent with the participatory nature of PRSPs, it is expected that all I-PRSPs and JSAs will be published, including on the Bank and Fund web-sites (together with a summary of the discussion by the Boards). Bank and Fund staff should request that the government convey its I-PRSP to the institutions with a cover letter that explicitly confirms its no objection to such publication. If the government confirms its no objection, the I-PRSPs would be posted immediately following circulation to the two Boards, and the JSA, together with a summary of the discussion by the Boards, would be posted simultaneously on the Bank and Fund web-sites shortly after the second of the two Board meetings.[10] If the authorities decide *not* to publish their I-PRSP, this should be noted in the JSA, together with a statement of staff concerns about the lack of transparency and participation evidenced by this decision. In the event, the JSA would also not be published.

[10] A short Board note on publication issues relating to PRSPs and JSAs is under preparation

ANNEX TABLE I

Possible Country Timelines for Poverty Reduction Strategy Paper (PRSP), Interim PRSP, Country Assistance Strategies (CAS), Poverty Reduction and Growth Facility (PRGF), and HIPC Decision and Completion Points through June 2001[1]

Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar 2001	Apr - Jun 2001
Angola	...	...	...	...	...	I, F
Albania	S	I, R	...	...	...	P
Armenia	...	...	...	...	I, F, S	...
Azerbaijan	...	...	...	...	I, F	...
Benin	...	...	I,F,D	S,R	...	P
Bolivia	I, D	...	...	P,R	C,S,R	...
Bosnia and Herzegovina	...	S	...	...	I,F	...
Burkina Faso	...	P, C, R, D	...	S,R	...	...
Cambodia	S	...	R	I, R	...	...
Cameroon	...	S, R	...	I,F,D	...	...
Central African Republic	...	...		I,R	...	D,R
Chad	...	...	I, S, R	D	R	...
Côte d'Ivoire	...	...	...	...	I,F,D	...
Djibouti	...	...	R	I, R,S	R	R
Ethiopia	...	...	...	...	I,F,D	...
Gambia, The	...	R	...	I,R,D	...	...
Georgia	...	...	...	I, F	...	...
Ghana	S	...	I, R	...	...	P,R
Guinea	...	...	...	I, R, D	F	...
Guinea-Bissau	...	...	...	I, F, D	R	...
Guyana	...	...	...	I, R, D	P	R
Haiti	...	...	...	...	I, F	...
Honduras	...	I, R	D	...	P,R	...
Kenya	...	...	I, F	...	...	P,S
Kyrgyz Republic	...	...	R	...	I,F,S	...
Lao, PDR	...	...	...	...	I,F	...

Country	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar 2001	Apr - Jun 2001
Lesotho	...	...	...	I, F	...	...
Macedonia, FYR	...	S*	...	I,F	...	R
Madagascar	...	R	...	...	R,I,F,D	S
Malawi	...	...	...	I,F,D	R	S
Mali	...	...	I, R, D	S*	...	P
Mauritania	D	R	...	P, R	...	...
Moldova	...	...	...	I, F	...	...
Mongolia	...	R	...	I, F	...	R
Mozambique	R	I, S, D	...	R	...	C,P
Nepal	...	...	...		I,F	...
Nicaragua	...	...	...	I, R, D	R	P
Niger	...	...	...	...	I,F,D,S	...
Pakistan	...	...	...	I, F	R	S,R
Rwanda	...	...	R	I, R, D	...	S,R
Sao Tomé and Príncipe	...	I, F	...	R	D,R	...
Senegal	...	I, R, D	...	...	R	R
Sierra Leone	...	...	...	...	I,S*,F	...
Sri Lanka	...	...	...	...	I,F	...
Tajikistan	...	...	...	I,R	R	R
Tanzania	...	I, F, D	R	P	R	...
Togo	...	...	...	...	...	I,F
Uganda	D	P, S,C	R	...	R	...
Vietnam	...	S*	...	I,F	...	...
Yemen, Republic of	...	R	R	I,R	...	...
Zambia	...	...	I, R	D	...	...

I – Interim PRSP	F -- new PRGF 3-year arrangement	D – HIPC decision point under enhanced Initiative	S – Country Assistance Strategy
P – PRSP	R -- Review of PRGF arrangement, or new annual arrangement	C – HIPC completion point, enhanced or original Initiative	S* – Country Assistance Strategy Update

1 These estimates are in some cases highly tentative and are all subject to change. PRSPs and Interim PRSPs are prepared by the countries. These estimates shown have been prepared in consultation with the country authorities concerned, but ultimately the timing of PRSPs and Interim PRSPs will necessarily reflect the countries' own circumstances and decisions. Furthermore, the timing estimates assume that the countries' Fund- and Bank-supported programs remain on track, and that understandings are reached on new programs without major interruptions. Experience indicates, however, that some and perhaps many of these dates will surely slip, and the timing of new programs is particularly subject to delay.