INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

Heavily Indebted Poor Countries (HIPC) Initiative—Strengthening the Link between Debt Relief and Poverty Reduction

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I. INTRODUCTION

1. A comprehensive review of the HIPC Initiative has been underway since the start of this year. Following discussions in the IMF and World Bank Boards in April, the Development and Interim Committees endorsed a mandate for change in the light of the outcome of Phase I of this review process which examined changes to the framework of the Initiative. Specific proposals to modify the framework of the Initiative, taking into account, inter alia, the report of the G7 finance ministers to the Cologne summit, have recently been set out in a separate paper[1] prepared jointly by the staffs of the World Bank and the IMF. Preliminary discussions by both Boards have taken place.[2]

2. Phase II of this review, which has also included an extensive consultation with civil society, has focused on the link between debt relief and poverty reduction. In line with the Interim and Development Committee Communiqués, this review process is expected to culminate in proposals from the Boards of Bank and Fund for endorsement at the 1999 Annual Meetings.[3] In parallel with the work on these issues for the review of the HIPC Initiative, the staffs of the World Bank and the IMF have separately prepared papers reviewing, and considering ways to strengthen operations relating to social policy and poverty reduction.[4]

3. The process of poverty reduction requires time. Radical improvements in living conditions involve a transformation of economic and social structures that may take decades to achieve. Even the remarkable reduction in poverty in East Asia took two decades, from the mid-1970s to the mid-1990s to halve the numbers of poor (and for the proportion living below a dollar a day—in 1985 purchasing power parity terms—to fall from 60 to 20 percent of the population.)

4. This long-term horizon is implicit in the multidimensional International Development Goals (IDGs) that organize various United Nations declarations into a number of internationally agreed targets for the year 2015 (relative to 1990). These include:

- Reducing the incidence of extreme poverty by half;
- Reducing infant and child mortality by two-thirds;

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[1] *Modifications to the HIPC Initiative,* (EBS/99/138 and IDA/SecM99-475)

[2] Summing up by the Acting Chairman, Modifications to the Initiative for Heavily Indebted Poor Countries, Executive Board Meeting 99/98 (Buff/99/101), Chairman's Summing up Modifications to the Initiative for Heavily Indebted Poor Countries, Informal Bank Board Meeting, August 3, 1999 (IDA/SecM99/504).

[3] The communiqué of the Cologne summit also noted the critical importance of ensuring that more resources are invested in health, education and other social needs which are essential for development and called on World Bank and IMF to develop, by the time of the Annual Meetings specific plans to for an enhanced framework for poverty reduction (http://www.g8cologne.de/06/00114/index.html).

[4] *Review of the IMF's Approach to Social Issues and Policies,* (forthcoming) and *Building Poverty Reduction Strategies in Developing* (forthcoming)

- Achieving universal enrolment in primary education;
- Eliminating gender disparity in education (by 2005).

5. In the HIPC countries, where in most cases over 40 percent of the population live below the poverty line, these long-term targets cannot be achieved without sustained per-capita economic growth. Substantial reduction in poverty ratio targets can only be achieved if per-capita real incomes rise sufficiently, as it is infeasible to achieve more than a fraction of this through income redistribution within low-income countries. Ambitious social sector targets in areas such as education and health, will generally require substantial increases in real levels of public expenditures. These also cannot be achieved unless the government revenue base rises sufficiently through higher per-capita incomes.

6. Since sustained growth in per-capita income is essential to tackle the pervasive poverty in most HIPCs[5], strategies for poverty reduction must be integrated into an overall policy framework that will allow the country to move to a new path of sustainable faster growth. A sound macroeconomic framework geared to stability is a prerequisite for economic growth. Avoiding high inflation is also important for sustainable growth.[6]

7. Other requirements for sustained high growth include appropriate economic structures, good governance and social stability which encourage private sector investment and economic activity. Without appropriate price incentives or supporting infrastructure, growth is likely to run into bottlenecks. Without good governance, economic policies are likely to be badly administered and economic incentives distorted by corruption. Without social stability, investment will eventually suffer and growth will grind to a halt. These various elements also interact in a range of ways. For example, weak macroeconomic management will impact on social stability through inflation—which also tends to increase income inequality since the poor are less able to protect themselves against inflation—or the eventual adverse effects of policy reversals, while poor governance will lead to weak implementation of structural reforms and possible misuse of scarce public resources.

8. Although growth is necessary for a sustained attack on poverty it is not alone sufficient to reduce poverty, and policy actions directed specifically at poverty reduction are required, such as directing public social spending at helping the poor improve their health and education. Also, there is evidence of a two-way causation between economic growth and social conditions. Investment in human capital can play an important role in the development of a virtuous circle of growth and poverty reduction.

9. The rest of the paper is organized as follows. Section II summarizes the various proposals and comments that have been received from non-governmental organizations (NGOs), other interest groups, multilateral institutions, and from member countries of the IMF and IDA. In general, these

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[5] For example, Demery and Walton (1999) concluded that for many countries sustained growth would need to accelerate beyond the rates prevailing in the early 1990s in order to achieve the international development goal of cutting extreme poverty in half by the year 2015.

[6] See, for example, Ghosh and Phillips (1998)

proposals call for the elaboration, in a participatory fashion, of poverty action plans and for progress in the social sphere to be monitored transparently using development indicators. Section III provides an assessment of some of these proposals and relevant considerations. Section IV sets out suggestions for integrating the savings from debt relief into programs to support poverty reduction in HIPCs. The paper concludes with issues for discussion.

II. COMMENTS AND PROPOSALS FOR CHANGE

10. This section describes the consultation process and summarizes the comments and proposals that have been received from civil society, member governments, multilateral creditors and other international organizations.

A. The Consultation Process

11. The consultation process for Phase II of the review of the HIPC Initiative was analogous to that conducted under the first phase of the review in that the Bank and Fund solicited suggestions from the public. In this phase of the consultation, views were requested, by June 18, 1999 on the following questions

- **Poverty Reduction**: How can the link between poverty reduction and debt relief be strengthened in the programs supported through the HIPC Initiative? How should they be linked to the achievement of the international development goals set for 2015? How can the debt relief provided be most effectively used to foster social development particularly in the health and education fields?

- **Delivery of Debt Relief.** Under the current framework, the HIPC Initiative focuses primarily on reducing the debt overhang, i.e., reducing the debt stock, which reduces debt service over the long run. Do you think that more weight ought to be given to reducing debt service burdens in the short term?

- **Debt Management**: Do you have any suggestions for improving debt management within HIPC countries?

12. The review also included a consultation meeting, hosted by the United Nations Economic Commission for Africa, on July 29-30, 1999, in Addis Ababa, Ethiopia which was attended by representatives from a wide-range of NGOs, religious groups, governments, international organizations and multilateral development banks. In addition, the United States Executive Directors of the World Bank and the IMF hosted a conference on *Making The Link Between Debt Relief And Poverty Reduction* in Washington on July 26, 1999 to which NGOs, religious groups, poverty experts and representatives from governments and the Washington-based IFIs were invited (Box 1). A conference on this topic was also hosted by the Commonwealth Secretariat in London on August 2-3, 1999 (Box 2).

Box 1: Conclusions of Conference Hosted by UNECA in Addis Ababa on July 29 and 30, 1999 on the Link Between Debt Relief and Poverty Reduction

There was general agreement on a strong link between debt relief and poverty reduction, though also recognition that the process of operationalizing this link would be complex. Key principles were:

- An appropriate macroeconomic framework consistent with a poverty reduction framework.
- A country-led and locally owned broad-based poverty reduction strategy, with widespread participation of civil society.
- The integration of debt relief into a country's anti-poverty framework, with expenditure made possible by debt relief savings incorporated into the overall national budget.

Consistent with these principles, key reforms included improved budgetary management and the development of a medium-term expenditure framework with priority on poverty-focused expenditures that would help achieve the 2015 international development targets. The importance of providing income-earning opportunities for the poor as well as the efficiency and effectiveness of social expenditures were emphasized.

Other themes were:

- Given the importance of outcomes, the need for the improved **monitoring** of poverty reduction efforts through, inter alia, social performance indicators. This would require the strengthening of national statistical capacities. There was also the need to increase the accountability and effectiveness of public expenditures.
- The need for a strengthened **consultation** process with greater participation of civil society through national and sector fora, with the examples of Uganda and Tanzania cited in this context.
- Consistent with greater national ownership of policies and capacity limitations, the need to avoid excessive **conditionality** by donors and IFIs, both in the social and macroeconomic areas. In particular, it was suggested that countries should be allowed to reach the decision (in particular) and completion points with a macroeconomic program that is broadly on track. The need for flexibility for countries emerging from conflict and natural disaster was also stressed.
- The desirability of HIPCs sharing their experiences on poverty reduction strategies and the use of indicators to monitor their progress under such strategies.

Box 2: Conclusions of Conference Hosted by the Commonwealth Secretariat in London on August 2 and 3, 1999 on Implementing the HIPC Initiative: Sharing Experiences

The main conclusions on the link between debt relief and poverty reduction were:

- A general welcome of deeper and more front-loaded debt relief as the most effective way of creating fiscal space for the direct spending on poverty reduction measures (including, but not limited to, health and education spending).
- Agreement that ESAF-supported macroeconomic programs should be integrated within a broader poverty reduction framework, including an assessment of the impact of adjustment on vulnerable, poor groups.
- An emphasis on the importance of growth. ESAF-supported programs were acknowledged to generate growth, though the link between program implementation and growth outcomes should be strengthened.
- Agreement that faster growth would require an improved investment climate, including enhanced transparency of policies and institutions and public accountability.
- The importance of national ownership of the broader framework for poverty reduction. It was emphasized that poverty eradication is a long-term challenge dependent on much more than debt relief.
- The need for more effective statistical monitors of poverty. But social policy conditions should be simple, realistic and limited in number.
- While the earmarking of the benefits of debt relief in ring-fenced funds could be a useful approach, such funds should be fully integrated into an open and comprehensive medium-term framework for public expenditure, with the involvement of civil society and other stakeholders.
- The desirability of HIPCs consulting among themselves and sharing their experiences of how best to leverage poverty reduction through debt relief.

13. In common with the experience for the first phase of the review, this consultation process again promoted considerable interaction and dialogue among NGOs, governments, multilateral development banks and other international organizations. Some of the comments provided for the first phase of the review, and circulated to the Bank and Fund Boards,[7] are also pertinent to the issues covered in this second phase of the review. In line with the procedure followed in the first phase of the review, comments in the second phase are also being circulated in their entirety to the Boards under separate cover. These comments are also summarized in Annex I.

B. Summary of Comments and Proposals for Change

Strengthening the Link between Poverty Reduction and Debt Relief

14. Most of the comments received from NGOs reflect a fundamental view that the HIPC Initiative should have a stronger focus on poverty reduction. A broad consensus emerged in the comments that this should be attained by improving provision of, and access to, social services within the HIPCs, with some commentators (e.g. the Mozambican Debt Group) also stressing the need for improvements in agricultural and rural infrastructure.

15. Some commentators argued that the HIPC Initiative needed to be fundamentally recast to give priority to the provision of adequate resources for social development. In this vein, one of the most elaborate proposals, the "Human Development Approach" from the Catholic Fund for Overseas Development (CAFOD), advocates that government revenues would first be used to fund minimum levels of government spending for basic human development and, at most, only one fifth of the remaining "net revenue" would be allocated for debt service.

16. Other comments were of the view that the existing framework for the HIPC Initiative could contribute to social development, provided the links between poverty reduction and debt reduction were strengthened sufficiently. In this vein, and reflecting the general concern with human development, the majority of these comments dealt with mechanisms and procedures to ensure that resources freed from debt relief were spent effectively on health and education. The most detailed proposal in this area was OXFAM and UNICEF's Debt-for-Development Plan, in which additional assistance under an enhanced HIPC Initiative framework would be provided as an incentive to encourage commitments to poverty reduction (Box 3). Under this proposal, only governments willing to allocate 70-100 percent of savings from debt relief to poverty reduction would be eligible for earlier and deeper debt relief.

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[7] *HIPC Initiative—Perspectives on the Current Framework and Options for Change—Volumes I and II* (IDA/SecM99-181, EBS/99/52); and Supplement 1, Parts I and II.

Box 3: Oxfam and UNICEF's "Debt-for-Development Plan" [1/]

OXFAM and UNICEF in their joint proposal for a Debt-for-Development Plan argue that "where governments have demonstrated a clear commitment to economic reform and the capacity to absorb savings from debt relief in a manner which will accelerate poverty reduction, they should receive early debt relief." The Debt-for-Development Plan is based on the view that debt relief incentives are among the most effective means of encouraging governments to focus more clearly on poverty reduction strategies. Debt relief would then provide additional resources to enable countries to reach their poverty reduction targets faster.

In order to reach a decision point, a country should be required to establish a track record with a commitment to:

- Poverty reduction, i.e. demonstrate progress towards an effective strategy. Benchmarks would include: transparent budgeting; targets for allocation of budgetary resources for basic services; policies for achieving growth; and enhancing participation by civil society in developing anti-poverty programs.
- Economic reform with a poverty reduction plan integrated into macro-economic planning.
- The length of the track record required would vary, depending on country-specific circumstances, but would not exceed 2 years. In order to reach the completion point, the government must be able to demonstrate the capacity to absorb resources released through debt relief into a Debt-for-Development Plan.
- Interim relief would be provided by all creditors until this strategy could be put in place. Thus, delays would not significantly affect cash flows, but would ensure that debt relief is used effectively after the Completion Point.
- Performance criteria could include both macroeconomic and social policy indicators, with special emphasis given to: strengthened budget management; a medium-term expenditure framework; and progress towards setting public spending priorities with a poverty focus.
- A Debt-for-Development Plan would be developed in collaboration with civil society, donors, UN agencies and the World Bank. This plan would elaborate on:
- The proportion of debt relief to be channeled into basic social services.
- Which outcome targets would be used to measure the effect of increased spending on social services.
- How reduced debt service would contribute to accelerated progress towards the 2015 human development goals.
- Which infrastructure investments would benefit the poor.
- Monitoring and evaluation arrangements with civil society.
- The most appropriate rate of disbursement of debt relief.

[1/] "Debt Relief and Poverty Reduction: Meeting the Challenge", July 1999.

17. Many of the comments also addressed broader issues such as the most appropriate strategies for human development and the state of development assistance. In this vein, several commentators from both civil society and governments viewed the potential release of resources for social outlays under the Initiative as an opportunity to conduct a broader examination of the level, financing and effectiveness of social spending in HIPCs, and to reinvigorate the government's anti-poverty program more generally. In this context, some comments from both the NGO and official community have sought to refocus the debate away from a direct link between debt relief and poverty reduction. For instance, the Halifax Initiative argued that the HIPC Initiative should be viewed as an additional tool for development assistance. On a related point, the European Union drew attention to the need to increase budgetary support for social spending to complement the fiscal resources provided by debt relief.

18. In line with the general themes that emerged in these contributions to the debate, the comments on the link between debt relief and poverty reduction have been summarized under four topics, namely (i) developing integrated frameworks or plans for poverty reduction; (ii) strengthening the ownership of debtor countries and participation of civil society in preparing and implementing these plans; (iii) setting goals and indicators related to internationally agreed objectives; (iv) strengthening transparency and accountability, including of poverty funds.

Poverty Action Plans

19. Many of the comments from civil society stress the importance of a well-formulated overall plan or framework for poverty reduction in the recipient country as necessary to ensure that HIPC Initiative and other resources are used effectively for poverty reduction. The poverty action plan (PAP) should include the range of initiatives to reduce poverty, development goals and their monitoring and financing requirements. Several respondents stress that the plans should be tailored to the circumstances of the country. OXFAM has suggested that the government submit a poverty action framework at, or in advance of, the country's decision point under the Initiative and that this should serve as a "contract" between creditors and the debtor government.

20. Comments from governments, such as the UK, also stress that HIPC Initiative assistance should only be available to those seriously committed to poverty reduction. Debt relief should reward progress rather than be committed in return for promises of future action. Governments and some multilaterals also urge the use of HIPC Initiative assistance within unified national anti-poverty plans, rather than funding separate operations. In this regard, some have called for integrating debt relief with other initiatives in this area, notably: the World Bank's Comprehensive Development Framework; Medium-Term Expenditure Frameworks developed through the Special Program of Assistance; and the Good Practices on Social Policy being discussed by the World Bank and United Nations. Government comments also direct attention to strengthening the content of policies for poverty reduction drawing on the ongoing work at the World Bank and other institutions, and the European Union noted the importance of improving the effectiveness of public spending. One government respondent also proposed that macroeconomic policy (and hence ESAF) also be a part of the national consensus reflected in the PAP.

Ownership and the Participation of Civil Society

21. A prevalent theme in many of the comments from civil society was the importance of ensuring that the government's poverty action plan (and its economic policies more generally) be as widely "owned" as possible. Most of these commentators advocate a broad consultative and coordination process--involving the participation of debtor governments, civil society/the poor, and donors to varying degrees--in elaborating and implementing poverty action plans, including decisions on how savings from debt relief are spent. This process was seen by many as essential to ensuring that the priorities of the poverty plan were tailored to the circumstances of the country. Some commentators, including the World Vision Partnership and OXFAM, suggested that the World Bank's Comprehensive Development Framework (CDF) could provide a means to facilitate this form of consultative process and build ownership. In addition, many NGOs have argued that such participatory mechanisms are the most appropriate means of fostering ownership of poverty reduction strategies and accountability for the use of resources available for their financing.

22. Government and multilateral respondents also stressed that an inclusive process of in-country consultation was vital for ensuring broad support for the poverty reduction plan and its continuity. The U.S. government asked for greater emphasis on building ownership of policies backed by official international assistance, and called for concrete steps to broaden participation and popular understanding of program goals. The UK Government emphasized that PAPs should be built on existing country specific processes rather than on an international blueprint.

International Development Goals and Indicators

23. Several NGO commentators have advocated that relief under the HIPC Initiative should be integrated into a global strategy for poverty reduction. Reflecting this view, the NGO community was, in general, supportive of the use of international development goals drawn from various UN conferences and agreed by members of the Development Assistance Committee of the OECD, and was seeking practical ways of linking implementation of the HIPC Initiative to such goals. Some NGOs noted that the use of explicit targets would be useful in promoting accountability. A general concern of the NGO and religious community, reflected in their comments, was that inadequate resources were available for social investment, and the impact of high debt burdens on growth, were jeopardizing the achievement of these goals. Others recognized that debt relief was only one of a range of measures required to achieve the DAC targets.

24. There was also general agreement in the comments from the official community that the goals in anti-poverty plans should be linked to these international development targets, and made operational through monitorable social indicators to be attained within specific timeframes. These goals should be modified as necessary to reflect local conditions, and be incorporated into the overall anti-poverty framework. The EU has proposed that the social content of HIPC programs should be integrated into ESAF program conditionality. However the EU also warned against simple budgetary targets and mechanical monitoring, arguing that performance indicators should not substitute for in-depth and coordinated analysis of the social situation. Other government comments note that poverty reduction is a long-term process; highlight the difficulties in establishing the

necessary monitoring framework within the time frame of the HIPC Initiative; and caution against detailed micro conditions in the social sectors. In this context, the UK government suggests the completion point could be reached on achievement of anti-poverty milestones, such as government spending allocations to key anti-poverty sectors.

Transparency and Accountability

25. Almost all commentators to Phase II of the review stressed that improvements in transparency and accountability are crucial to ensure that social expenditures are effective and reach the poor. Several NGO and religious community respondents have proposed that civil society and other stakeholders should be involved in the monitoring of the funds released for poverty reduction and, in this regard, referred positively to the experience with the Poverty Action Fund in Uganda. Some have argued that poverty fund expenditures be subject to independent/external auditing and be subject to parliamentary scrutiny. One commentator proposed the establishment of a monitoring system both at central government and the local level. A number of NGO commentators also point out that accountability should extend to creditors for past lending (particularly regarding export credits), and urged increased transparency in the international financial system.

26. The U.S. government called for a “new mechanism to ensure that the cash flow benefits of debt relief flow directly and reliably into increased national efforts to combat poverty”, while conceding that institutions that effectively target critical social needs will take time and commitment to put in place. Many commentators from civil society advocated the use of poverty funds as a means of promoting transparency and accountability in the use of savings from debt relief. There has also been some support for such funds in the official community with similar emphasis on transparency and accountability. The UNDP for example has proposed a National Partnership Facility whose functions would be: to direct a portion of the debt relief dividend to human development projects; to provide a forum to develop a national development agenda; and to advise government on its sectoral programs for human development. The UK government has argued that while these funds may also be useful for mobilizing donor support, to overcome concerns over fungibility, these resources should be integrated into a medium term expenditure framework and would be part of a poverty strategy going well beyond the utilization of savings on debt service. A similar point was made by other NGOs including the World Vision Partnership which argued that “the mire of fungibility has to be avoided to ensure genuine additionality in public sector expenditures essential for sustained poverty reduction.”

Delivery of Debt Relief

27. Most respondents from civil society noted that poverty reduction required both a fall in short-term debt service that freed resources for social spending as well as debt stock reduction that removed the debt overhang. At the same time, many believed the HIPC Initiative placed too much emphasis on stock reduction and that a reduction of debt servicing was the immediate priority if adequate resources were to be available for social expenditures. Relatedly, several stressed that fiscal indicators were key for assessing the burden of debt service. The comments of the North-South Institute emphasized that multilateral debt reduction should be provided through flow relief, that this should be delivered in a flexible manner, and that escrow accounts for grants to cover

multilateral debt service be used for all international financial institutions. Noting that debt relief was a one-off opportunity, Eurodad stressed the importance of a failsafe mechanism to stop debt relief if resources were not channeled through a poverty fund to the social sectors. Provision of debt service relief rather than debt stock cancellation could be part of this mechanism as it allowed the debt relief process to be suspended if required.

28. Comments from Governments and multilateral institutions also suggested front-loading debt-service reduction in the early years, if debt stock reduction was insufficient to provide the necessary resources for poverty reduction. One respondent argued that debt service relief provided resources more rapidly, allowed leverage over social policies to be maintained in the form of future stock relief and, unlike stock reduction, would not threaten aid resources. Even so, some respondents in this group recognized that stock reduction was also necessary to improve investment prospects and as an incentive to implement reforms.

Debt Management

29. Civil society's comments on this subject were motivated by the need to prevent future debt crises, to secure appropriately concessional resources, and to ensure new borrowing is used for projects with high economic and social returns and was consistent with national development plans. Emphasis was placed on improving the transparency and accountability in the contracting of new loans, so as to allow civil society, and possibly parliaments, to participate effectively in the regulation and monitoring of new borrowing. One commentator proposed that, as a condition for debt forgiveness, countries should commit to an upper limit on future debt service requirements relative to projected exports and revenues. Several also urged responsibility, transparency, and accountability on the part of creditors (in particular with regard to export credits), so as to ensure new lending is on appropriately concessional terms and is directed to productive uses. Other comments from civil society included the importance of well trained personnel in both debt management and the HIPC Initiative debt reduction process, and for full and more equitable participation of debtor countries, and wider involvement of civil society, in debt negotiations.

30. Government comments also advocated a transparent and accountable budgetary process, and noted the importance of technical assistance and financial support for capacity building in debt management. The comments of UNCTAD, a specialist organization in this area, suggest efforts to strengthen debt management should be directed at six critical areas: securing active and sustained support for debt management from government; establishing an appropriate legal framework for the work of the debt office; improving communication and coordination between local financial agencies; ensuring the retention of trained and experienced staff; implementing an effective debt management system; and, improving coordination between international assistance-providing agencies.

III. ASSESSING THE PROPOSALS FOR CHANGE

31. The need for sustained implementation of appropriate policies for long-term poverty reduction and the irrevocable nature of debt relief under the HIPC Initiative both underscore the importance of ownership, transparency and accountability that has been stressed by most commentators to ensure that social expenditures are effective and reach the poor. Strengthening the focus of the HIPC Initiative on social policies is not, during the relatively short time-horizon of the Initiative, likely to result in substantial reductions in poverty. However, within this time frame, the aim would be to establish, with a participation of civil society, a durable process that would over the longer term yield sustainable growth and poverty reduction.

32. This section provides an assessment of some of the specific proposals that have been made during the Phase II of the Review as well as some general considerations that should be borne in mind in assessing these proposals.

A. Outcomes, Indicators and Poverty Reduction Strategies

33. The International Development Goals provide the context for the formulation of country-specific targets for poverty reduction. As noted earlier, these goals are outcomes that reflect a multidimensional view of poverty, encompassing not only low income levels but also illiteracy, poor health and lack of access to services. To operationalize them for each country will require starting with a thorough understanding of the nature and locus (regional, occupational, ethnic, etc.) of poverty and tracing these characteristics to key determinants of the desired outcomes. Indicators can then be identified which could serve as proxies for measuring interim progress—until the passage of time allows measurement of changes in the prime outcome indicators.

34. The potential value of using such indicators instead of relying simply on input indicators, such as social sector expenditure, can clearly be seen from empirical studies which have generally found, at best, a weak link between higher aggregate spending on health and education and improved measures of educational attainment and health status.[8] In part, this weak relationship between high social spending and improvements in social indicators reflects substantial cross-country differences in the efficiency of social spending.[9] There is, for example, some evidence to suggest that the beneficial impact of education and health spending on social indicators can be strengthened by changing the composition of this spending towards primary education and preventive health care.[10] In addition, the geographical distribution of social spending, particularly a bias in provision towards urban areas, may have important consequences for the effect of this spending on social indicators. Reflecting the important impact of the efficiency of social spending, it has been argued that "...the answer does not lie in increased spending alone. Improving the policy

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[8] See, for example, Musgrove (1996).

[9] See, for example, Gupta et al (1997).

[10] See Gupta, et al 1999.

and institutional framework for social service delivery and use is often of equal or greater importance". [11] [12]

35. As well as providing useful insights into the relative efficiency of social spending, the use of indicators can play an important role in the design and implementation of poverty reduction strategies. In principle, poverty reduction could be embedded in a framework that aims to attain improvements in specific human development indicators (such as the literacy rate). This targeted improvement would need to be translated, *inter alia*, into required improvements in related intermediate indicators (in this case, for example, primary enrolment and retention rates). Finally the attainment of the targeted improvement, year-by-year, in the relevant intermediate targets would need to be costed for the purposes of deriving the budgetary implications.

36. In addition to providing a coherent framework for the design of social spending plans over the medium term, the use of intermediate indicators offers an additional advantage in the monitoring of the implementation of the program. Data on final indicators of health and educational status are typically available with only long lags and consequently, the success of policy changes can be assessed only years after changes are implemented. However, data on the underlying intermediate indicators that relate to the final indicators would typically be available with relatively short lags, often no longer than the lags in the reporting of final data on annual budgetary outlays. This will provide a basis for assessing progress overall and an early warning system for identifying program areas in which remedial action may be required.

37. This is particularly relevant for decisions under the HIPC Initiative. One of the key principles of the Initiative is that the commitment to a specified level of NPV debt relief becomes irrevocable at the completion point. But (under any feasible combination of flow relief and stock reduction measures) the financial benefits will actually be provided over a number of years beyond the completion point. The key to enhance the link between HIPC Initiative debt relief and poverty reduction is to ensure that between decision and completion points government action is consistent with the pursuit of poverty reduction and that, by the completion point at the latest, processes have been established to ensure regular, transparent reviews of the progress on key determinants of poverty. This information and feedback process would enable government programs and external assistance to be adjusted as required. A clear focus on indicators and enhanced transparency and accountability provides the best basis for ensuring that the right targets are selected and that monitoring of the related indicators drives implementation and resource allocation decisions.

38. While HIPC Initiative documents have already emphasized many important aspects of poverty reduction strategies, it is clear that a more systematic, outcome-based approach would be desirable. Annex 2 provides a summary of the progress to date in addressing social issues, and the monitoring of development indicators in HIPC documents to date.

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[11] Demery and Walton (1998)

[12] A fuller discussion of the link between social spending and social indicators can be found in a *Review of the IMF's Approach to Social Issues and Policies* (forthcoming)

B. Debt Relief, Debt-Service Payments, and the Efficiency of Public Spending

39. One of the main benefits of the Initiative is that by reducing annual debt-service payments it will make it possible to accommodate higher levels of expenditure in areas that have been identified as key to accelerated poverty reduction, including social spending. The question is how to ensure that such additional spending takes place and is appropriately targeted. But another important objective of the Initiative is to regularize the financial situation of poor countries. Inasmuch as HIPCs were not servicing some of their debts, debt relief will not provide immediate additional fiscal resources. The need to link HIPC Initiative debt relief and poverty reduction should be seen as an impetus to prioritize the allocation of all available resources (debt relief and otherwise) in line with targets related to poverty reduction.

40. The relative magnitudes involved are illustrated in Annex 3. While the savings from debt relief could represent a significant contribution to poverty-reduction spending in HIPCs, other sources, including other aid inflows, would be expected to continue to provide the bulk of total resources available for that purpose.

41. In addition to increasing poverty-reduction expenditures, efforts are needed to improve its efficiency, both in terms of the inter-sectoral composition of public spending and the allocation of inputs within sectors. In education, for example, there may be imbalances between amounts spent on teachers' salaries, textbook supplies and equipment, and maintenance of school buildings with consequences for the quality of education achieved. There are wide disparities in the cost-effectiveness of government expenditure in the social sectors and other areas highly relevant to poverty reduction across countries in Africa and elsewhere. Another challenge is the targeting of social spending to the poor, which is often difficult to achieve.

C. Transparency, Accountability and the Role of Poverty Funds

42. Transparency and accountability would be a key element of this process, and would also be important to sustain (and, it is hoped, increase) aid flows to low-income countries. The worldwide campaign for debt relief has focused attention on poverty in low-income countries. Transparency and accountability are thus essential to demonstrate that the Initiative is geared to poverty reduction. In addition, the risk that debt relief could result in cutbacks in development assistance provides the challenge of demonstrating that higher aid flows are justified by the effective use of all assistance, including debt relief.

43. In this context, the use of poverty funds has been widely advocated. Specifically, poverty funds have been seen as providing transparency in the allocation of resources and thereby fostering greater accountability in the use of the savings from debt relief; in this manner a poverty fund could help to ensure that the savings from debt relief are allocated to priority areas of social spending. A poverty fund may also complement a poverty plan by drawing attention to the higher priority that the government attaches to poverty reduction and attracting greater external donor support. As the Ugandan experience demonstrates (Box 4), poverty funds can also provide an opportunity to foster participation by civil society.

Box 4: The Republic of Uganda, Poverty Action Fund: Guidelines and Operational Modalities

The Government of Uganda established the Poverty Action Fund (PAF) in 1998/99 as a key element of its budget management process. The PAF is designed to direct funds made available as a result of the HIPC Initiative debt relief, and donor resources more broadly, toward the implementation of programs within the Poverty Eradication Action Plan (PEAP). The PEAP was established in 1998 as a budgetary mechanism to ensure that all (government and donor) funding is directed toward poverty reduction. Key sectors include primary education, health, water and infrastructure and agriculture.

The PAF comprises both donor and government resources. Donor funds will be used to finance classroom construction and primary health care, providing crucial support to existing Government programs, including disbursement, implementation, monitoring and auditing. The Government will direct the full amount of resources it expects to be released from debt service as a result of HIPC Initiative assistance to key social sectors

To ensure and enhance transparency, all releases of PAF resources will be published and discussed at quarterly donor meetings, which would include participation of relevant government officials, as well as NGO representatives and the press.

How The PAF Works

- Donors deposit grant funds in the PAF account at the Bank of Uganda, a separate account within the Government's Consolidated Fund. All expenditures will fall under the full oversight of parliament and auditor general.

- Funds are dispersed each month through the budget to the district level, with clear lines of accountability to Chief Administrative Officers responsible in each district.

- Five percent of each grant will be set aside for accounting and auditing procedures. Relevant ministries will be required to report quarterly to CAO on use of funds. These reports form the basis of reports to donors discussed at quarterly donor meetings. These meetings will include full participation of NGOs and the press.

44. All of these desirable attributes for a poverty fund in allocating debt service savings are, however, no less important for the budgetary process governing all forms of government spending and using all sources of revenue. It is, therefore, important that the operations of a poverty fund do not detract from wider efforts to develop the good governance associated with well-functioning and transparent budgetary processes. Above all, there is a need to ensure that the activities of a poverty fund are fully integrated into the budgetary process, from initial planning right through to reporting on the execution of spending. The need for integration of the resources released by debt relief is also apparent from the earlier discussion which indicated that external aid flows and domestic tax revenues will continue to finance the bulk of social spending.

45. If the poverty fund is not integrated into the wider budget, duplication and lack of complementarity in expenditures are likely to result in waste. Lack of sustainability of spending by poverty funds, particularly in the provision of counterpart funds for maintenance, has emerged as a problem in some countries. In other cases, the use of a special fund whose control is outside the normal budgetary process has added to pressures for remuneration at levels outside the government's salary structure, thereby complicating the key task of establishing a rational wage structure for the public sector.

46. From a somewhat different perspective, lack of integration with the budget could undermine a poverty fund's main raison d'être of providing a transparent relationship between debt service savings and social spending. Expenditures met by the fund—corresponding to reduced debt service payments—may not be genuinely additional if these merely substitute for expenditures that were hitherto accounted for within the rest of the budget. At an aggregate level, the savings from debt relief could, therefore, facilitate an increase in unproductive expenditures even if the poverty fund recorded a commensurate increase in spending. The transparency of the allocation of savings from debt relief through a poverty fund may therefore ultimately depend on the transparency of the rest of the budgetary process, including the accuracy and detail of data on the composition of expenditures.

47. Recent experience with poverty funds also suggests the need for a careful evaluation of performance. The accountability that can be engendered by the use of a poverty fund may provide more opportunities for expenditures from the fund to be designed taking into account the expressed needs of the poor. The experience with social funds, which have been established in many countries with external support, is relevant here. These are typically designed as fast-disbursing financing mechanisms operating on a demand-driven basis. However, a review of the experience with social funds in Brazil suggested that project choices and designs are often not decided by communities, but by private firms, politicians, and staff of the poverty fund.[13] Poverty funds also may not succeed in reaching the poorest; in Bolivia, concerns about insufficient targeting led to replacement of the existing Social Emergency Fund by two new poverty funds in the mid-1990s. These were designed to be less autonomous, and take account of regional patterns of poverty in their allocations.[14]

48. In the review, commentators also highlighted the importance of debt management in ensuring a robust exit from unsustainable debt burdens. There are several key aspects to effective debt management, including the need for transparency and accountability as highlighted in the review; these are set out in Box 5. As this is a key issue in assuring long-term debt sustainability, the Bank and the Fund will further review debt management strategies in consultation with UNCTAD and other partners to explore how this could be strengthened.

[13] See Tendler (1999).
[14] Graham (1994) and Carvalho (1994).

Box 5 : Debt Management

Effective external debt management requires the coordination of decision making that has a bearing on loan contracting, its utilization and servicing. Often a lack of coordination among the various agencies involved results in inappropriate terms and levels of external borrowing, poor data records on the existing level of indebtedness, or debt servicing problems. The key to effective external debt management is to have well-coordinated and collaborative institutional arrangements that are fully integrated within the overall macroeconomic policymaking framework, and which have transparent goals. These arrangements are best established through legislation that clearly defines the responsibilities of the various agencies involved, and is consistent with the principles of good governance.

For external debt management to be effective and transparent, it should be driven and controlled by a high-level coordinating body that brings together senior officials from the key agencies that have the responsibility for financial and economic management in a country. The authority for approving and contracting external debt should reside in a centralized agency, which also has the responsibility for monitoring information on borrowing. Sub-committees could provide projections of the balance of payments, debt sustainability analysis, and fiscal operations in the medium term.

As part of the HIPC Initiative process, a coordinating body in debtor countries should establish its own explicit policies and judgements as to what it considers to be a prudent level of external debt in the medium term, both in terms of stocks and debt service ratios. Creditors – especially export credit agencies and other commercially-oriented creditors – should avoid any new lending inconsistent with the debt management strategy of the government.

Close monitoring of the contracted debts by the centralized agency involves keeping track of detailed information on individual loan commitments, disbursements and debt service obligations on all categories of external public and publicly guaranteed debt, including public enterprise debt and private guaranteed debt, and as far as possible, private debts which are not guaranteed by the debtor government. The acquisition of computers and software are essential to support external debt management, both for debt monitoring and recording and for debt strategy formulation. New software packages have now been developed to facilitate more forward-looking analyses, including debt sustainability analysis. However, in this regard, it is important that HIPCs develop their own in-house capacity for debt strategy formulation and debt monitoring, giving priority to training and retaining debt management staff.

IV. AN ENHANCED FRAMEWORK FOR POVERTY REDUCTION

49. Building upon the comments received in Phase II of the HIPC Initiative review, and in the light of the considerations discussed in section III above, this section focuses on the role of poverty reduction strategies. The proposed framework starts from the basic premise that the only way to ensure that there is a robust link between debt relief and poverty reduction is by ensuring that HIPC Initiative debt relief is an integral part of broader efforts to implement outcome-oriented poverty reduction strategies. In addition to discussing the key elements of such an enhanced poverty reduction framework, this section also touches on the need to improve the availability of key data and on how the framework could be used to specify the conditions for completion points—including, where appropriate, floating completion points.

50. It should be stressed at the outset that this is an ambitious undertaking. As country experience has shown, effective poverty reduction is a complex, long-term process. The HIPC Initiative provides a great impetus for this effort but the resources needed for sustainable reductions in poverty are a large multiple of those which the Initiative is mobilizing. Moreover, implementation of an enhanced framework for poverty reduction will require the Bank and the Fund to adapt their own modus operandi and, equally importantly, the manner in which they collaborate with each other—as well as with governments, civil society, donors and creditors

A. Towards Outcome-Oriented Poverty Reduction Strategies

51. Most HIPCs have in place strategies for poverty reduction and social development. These vary significantly in scope and depth (see Annex 4 for a summary of poverty action plans in HIPCs). The key is to ensure that they are grounded in an empirical understanding of the causal links between public intervention and progress on the poverty front. Poverty reduction strategies, macroeconomic objectives and policies, as well as sectoral policies and programs, should be designed through an iterative process to be consistent with each other and mutually reinforcing. While basic social services play a critical role, poverty reduction strategies need to be comprehensive and fully costed—aiming to deploy all available public resources with the objective of maximizing growth and poverty reduction—and undertaking the policy and program reforms that are necessary to address other key poverty determinants and barriers to access such as in the areas of social infrastructure (e.g. housing, sanitation, roads and bridges), rural and private sector development.

52. The enhanced framework proposed here is based on the experience of a number of countries, as well as on cross-country analytical work by international organizations, NGOs and academics, and represents an intensification of efforts already underway. It recognizes that the well-being of the poor is determined by both income and other characteristics such as access to public services, security and inclusion. The challenge is to foster and (where already under way) accelerate movement away from the separate design of social policies, macroeconomic targets and sectoral-based interventions to an integrated approach consistent with making progress toward poverty reduction and human development goals. As the strategy would be embedded within a feasible and consistent macroeconomic framework and reforms aimed at growth and increased efficiency, the

social consequences of the macroeconomic framework could be taken into account, and actions would aim at sustainable reductions in poverty on a broad front (Box 6).[15]

53. Important elements of this approach are a greater emphasis on broad-based participatory processes, particularly in the selection and the monitoring of poverty outcomes and indicators. While a participatory approach imposes costs and can be time-consuming, it has two clear advantages. First, it creates a sense of ownership among the participants. For instance, Bank reviews of its policy-based lending operations have concluded that impact is greatest when governments are the prime mover in suggesting reforms, and it is highly likely that domestic policy efforts have greatest impact when they represent a wide consensus within civil society and others concerned with effecting national development. Second, a participatory process potentially increases the information flow available to design and implement a poverty reduction strategy. In many countries, a significant part of the provision of such key services as primary education and health services are supplied directly by donor agencies and domestic NGOs such as religious organizations, and it is important to draw upon the lessons of their experience.

54. The development of an outcome-based strategy, implementation of which is designed to be monitored frequently and in a participatory way, involves several steps: (a) selecting outcome indicators directly reflecting the poverty situation in the country and representing the central objectives of the poverty reduction strategy; (b) identifying the determinants of poverty in the country, many of which will be interconnected given the multi-dimensional nature of poverty, and all of which will be key to achieving progress; and (c) establishing priorities for public action and related external assistance, informed by the poverty situation and the determinants which have been shown to be critical for poverty reduction.

55. The approach is dynamic in the sense that the results of poverty-outcome monitoring are fed back into the analysis of causal determinants and the prioritization and design of public actions. While the ideas underlying the approach are not new, the comprehensive nature of the overall poverty-reduction framework sets it apart from more partial approaches. This is envisaged to be a country-based process undertaken in the countries with extensive participation on the part of various civil society actors, in which the Bank, the Fund and other external partners could provide support. Where appropriate this process could take place in the context of the formulation of a Comprehensive Development Framework (CDF).

56. Selecting outcome indicators is an important part of the process. If national outcome indicators are to be based on an understanding about the nature of poverty in the country, some detailed analysis is needed to underpin the choice of priorities. This will generally involve disaggregation of outcomes across groups – geographical, demographic (including gender), ethnic and occupational lines of inquiry are likely to be important in many countries. The selection of targets for indicators needs also to take into account the diverse status of basic social indicators in the HIPCs, as is clearly evident from Annex 5.

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15 Detailed proposals for adopting a poverty-oriented approach in low-income countries are set out in Building *Poverty Reduction Strategies in Developing Countries*. World Bank (1999). Also see *Review of Social Issues and Policies in IMF-Supported Programs* (forthcoming).

Box 6: Key Elements of an Enhanced Framework for Poverty Reduction

The enhanced framework for poverty reduction, which emerges from the experience of Bank and Fund programs, as well as from the countries' own efforts and from consultations with other members of the development community, is necessarily a long-term effort requiring action on numerous fronts including:

- Recognition that poverty is multidimensional and not limited to social services.
- Sustained poverty reduction will not be possible without economic growth. Macroeconomic stability and structural reforms are essential to move low-income countries to a higher path of sustainable growth.
- Focusing on transparent, poverty-related goals and establishing mechanisms for broad-based monitoring of intermediate proxy indicators are essential to ensure that action programs and resource management processes are not only well designed but also effectively implemented.
- Broad-based participation is essential to sustained implementation of an anti-poverty strategy. In addition to the policy transparency that can result from participation, other dimensions of good governance are key.

At the core of this approach is a comprehensive understanding of the nature and locus of poverty in each country. Only starting from such an understanding, and from the analysis of key poverty determinants can an effective framework for poverty reduction be formulated—around a set of desired outcomes. Similarly, the understanding of poverty and its determinants would provide the most effective basis for selecting priorities for public action as well as for external assistance.

To articulate an outcome-based strategy amenable to broad-based monitoring, it should be noted that:

- Participatory monitoring of the implementation of the strategy would include targets established for a range of intermediate social indicators, for example, the delivery of or access to health and education services.
- Development of the institutional capacity needed to implement and monitor the plan would be needed in many countries, and could require external support. Civil society would play a prominent role in monitoring and in helping to ensure accountability.
- Attainment of targets would be fully costed; and the macroeconomic framework would be fully integrated into the poverty reduction strategy.

Table 1. Examples of Outcomes and Indicators Key to Poverty Reduction.

	Desired Outcomes	**Intermediate Indicator**
OVERALL	Increased income and/or consumption by the poor	GNP per capita Incidence of extreme poverty: population below $1/ day Poverty gap ratio: incidence times depth of poverty Rates of malnutrition (underweight for age) (moderate and severe)
EDUCATION	Higher literacy rate in total population	Net primary education enrolment rate Scoring of students in standard learning tests
	Gender equality in education	Ratio of girls to boys in primary and secondary education Completion of 4th grade of primary education
	Improved educational quality	Number of textbooks per pupil Pupil/staff ratio in primary education.
HEALTH	Lower infant mortality rates Lower child mortality rates Lower maternal mortality rates	Immunization coverage Percentage of births attended by trained staff
	Increased access to health care facilities	Geographical inequality index[1/] Proportion of population with access to safe drinking water Proportion of health posts/centers with Essential Drug Kits Index of delivery of health services[2/]

[1/] The index is defined as the number of health posts/centers serving the 25 percent most-favored population divided by the number of such units servicing the least-favored 25 percent.

[2/] An approach used in Mozambique reflecting a weighted average of number of immunizations, pre-maternity units etc.

57. To complement final outcome indicators, policy decision-makers inside and outside the country will need intermediate indicators that can be readily monitored and used to reveal changes during the shorter time frames that are typically of interest for governments, electorates, creditors and donors. Some examples are listed in Table 1. Some proxy indicators would be appropriate candidates for annual review by governments and external partners. The reliability of these proxies will be established on a case-by-case basis, the basic criterion being that they have been highly correlated with poverty/human development in the country in question. For example, the infant and under-five child mortality rates are likely to be outcome indicators in many countries; suitable proxies for these outcomes could include the percentage of underweight children under five years of age, the share of low-weight births and immunization coverage rates.

58. To design a consistent poverty framework, it is vital to have a good understanding of the determinants of poverty. Presentation of information on levels and trends in poverty outcomes and intermediate indicators is necessary, but not sufficient, for developing an outcome-oriented strategy. The next step is to assemble and distill information on the causal processes underlying human development, poverty and inequality outcomes. The question is: what are the causal processes underlying past (and projected future) trends in observed outcomes and proxies in the country. Key causal factors or determinants need to be identified. What can be done at the country level will clearly differ depending on the data, time and skills available to analyze the causal patterns underlying observed levels and trends in poverty and human development outcomes over time. In some country cases, which have the benefit of a more substantial literature and past scrutiny and understanding of national processes of poverty reduction and human development, this could be used to identify those variables which have the largest and most significant influence on outcomes.

59. A good recent Poverty Assessment can be a useful source for obtaining an understanding about the causal patterns underlying poverty and human development outcomes. A Poverty Assessment should provide and analyse information about the profile of poverty – including rural urban and regional disparities; occupational breakdowns; education and other dimensions of interest. It would also describe changes over time. Ideally, the report would also investigate the causal patterns underlying the observed trends. Poverty Assessments adopting a multi-faceted concept of poverty, beyond low levels of consumption/income, would explore information about and analyze disparities in key human development outcomes. If the analysis in the last Poverty Assessment along these dimensions is limited, basic data about the poverty profile would serve as a point of departure.

Box 7. Domains of Public Action Affecting Poverty Reduction
Policies conducive to macroeconomic stability, sustainable growth and reducing barriers to access by the poor to the benefits of growth
Policy framework aimed at macroeconomic stability Private investment policies Competition policies Labor market interventions Trade barriers with bias against pro-poor sectors Financial sector liberalization Pricing and subsidy policies Rural infrastructure Environmental policies and institutions Good rule of law, including property rights Land tenure and redistribution Expansion of quality education Spending on and targeting of safety net programs, including nutrition
Delivery of essential services Spending/policies on primary education Quality monitoring in schools Targeted interventions, e.g. efforts to deter child labor Action to reduce gender discrimination Outreach activities (e.g. immunization, or AIDS programs) Communication strategies (e.g., public health) Spending/policies on water and sanitation Spending/policies on curative health for the poor Increased coverage of pre and post-natal care
Transparency, accountability and budget management National and local participatory processes Effective decentralization to local levels Measures of public sector accountability and transparency (e.g. audits) Information and public dialogue Adherence to *Code of Good Practices of Fiscal Transparency – Declaration Of Principles* (1998) and IMF *Manual on Fiscal Transparency*
Reducing vulnerability Access to risk management mechanisms, including micro-credit Safety net programs to smooth income shocks (e.g. public works) Access to free emergency curative care Actions to reduce gender discrimination Actions to reduce violence (e.g. community policing) Stability of the financial system Sound external debt management

60. The development of a feasible strategy is a formidable task as the range of public actions to be considered is potentially very wide, and there is considerable need for professional expertise from a wide range of areas. It is useful to group the outcomes of interest into four broad areas which capture key dimensions of individual wellbeing (Box 7). These are:

(i) macroeconomic stability and sustainability, and reducing barriers to access by the poor to the benefits of growth;
(ii) delivery of essential services to the poor;
(iii) transparency, accountability and budget management; and
(iv) reducing vulnerability to poverty.

61. The examples of types of public action which are given in Table 1 should be treated as an (incomplete) menu, from which a selection would be made on a country-by-country basis. This would allow country-level diagnosis and the identification of priorities. A key point to note is that a better understanding about the nature and locus of poverty should lead to greater selectivity in public action, with greatest weight being accorded to those interventions expected to have the largest marginal impact on poverty and human development**.** It is worth reiterating that the relationship between public action and poverty is often complex, and is the product of interactions of a range of other factors outside a government's control, including initial structural conditions, the weather and external trade developments. This implies, among other things, systematic monitoring and feedback about the relationship between actions and outcomes in the process of implementation.

B. Improving Data Availability and Quality

62. Better and more timely data are needed in many countries for an outcome-oriented approach to have its full impact, and efforts will be needed to establish and improve databases in some areas. To take some examples, in education, Bank publications report recent (1996-1997) data on pupil-teacher ratios for 26 HIPC countries.[16] Gross primary enrollment rates are given for 30 countries, but net primary enrollment rates are only reported for 20 countries. The outlook is brighter for health indicators as recent data are shown on numbers of physicians for 37 countries, with data on access to safe water for 31 countries and proportions of children vaccinated against tetanus given for 36 countries. It is likely that much better data is available through other UN agencies like UNESCO and EFA, and WHO, as well as through Bank operations in the relevant countries. Concerted efforts will be needed in this area, by the Bank and others. It is likely that gaps will have to be filled by efforts within countries, with external support as appropriate, if the outcome indicators chosen are to reflect poverty reduction on a reasonably wide front.

[16] *World Development Indicators* (1999), and *Health, Nutrition and Population Indicators: A Statistical Handbook* (1999). Human Development Network, World Bank. Education data are based on UNESCO sources while data on health are compiled by the WHO and UNICEF.

63. The evaluation of outcomes presents new challenges. While some outcome indicators such as child malnutrition and infant mortality rates are reasonably widely available, household surveys are needed over the life of the program to provide information on human development and consumption at the individual/household level. These are costly and time-consuming and funding sources would have to be identified. According to a census of household surveys conducted by the World Bank in FY98, 110 of 124 countries covered had data from one or more consumption or income surveys while 60 had comparable data for at least two points in time.[17] Provided that the survey is not too old or inadequate, it should be possible to obtain sensible starting values for outcome indicators in some countries. In other countries, a fresh start will be made with a new survey as early as feasible in a program, and in all countries for monitoring purposes, a further survey will be needed two or three years later. Household surveys may be reinforced with in-depth participatory studies that seek to understand behavior within a given locality such as a village.

C. The Roles of the Fund and the Bank

64. In countries where a clearly articulated poverty reduction strategy exists, the Bank-and Fund-supported programs would be designed to give it maximum feasible support and a participatory process would be used to select targets and outcome indicators, which summarize the poverty reduction strategy and provide the basis for monitoring. Where further work is needed to develop a comprehensive poverty reduction strategy, the Bank can provide support to the government to that effect. Iterating with the Fund and other donors and institutions will also be key for a viable strategy to be formulated and implemented.

65. The country's poverty reduction strategy would set the common framework for the design of donor programs. The Bank and the Fund would support the overall strategy while concentrating on their respective areas of primary responsibility and expertise.[18] The Fund-supported macroeconomic program would take into account the vital importance of adequate budgetary allocations for health, education and other key expenditure areas with analytical support through the Bank's public expenditure reviews. IDA would continue to provide support for projects and programs consistent with the poverty reduction strategy and facilitate donor coordination.[19]

66. Considerable technical input would be required from the Bank to suggest priorities for poverty reduction and to help the country choose appropriate indicators with associated cost implications as needed. Through its sector work and project preparation in relevant areas, the Bank is often well placed to offer policy advice and to help design programs to improve the quality and efficiency of spending in social sectors and in other areas critical to poverty reduction. Through its Poverty Assessments and involvement in social sectors, the Bank has learned much about the

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[17] Access to data is a problem at present. Only 32 countries covered by the Bank census make their data accessible to researchers and other interested parties. These restrictions would have to be lifted for those designing poverty action plans.

[18] The delineation of areas of responsibility was recently reaffirmed *in Report of the Managing Director and the President on Bank-Fund Collaboration*, SecM98-733, September 4, 1998.

[19] IDA's capacity will be strengthened in the recently launched Policies and Outcomes Project that aims to examine the causal link between human development indicators and poverty outcomes and explore the implications for public action.

characteristics and causes of poverty – experience that can be fed into the design of poverty action plans. For instance, in recent years the Bank had completed 30 Poverty Assessments in HIPC countries and IDA-financed projects in health and education are being implemented in virtually all HIPCs which are active borrowers (see Annex 3).

67. Wider Bank initiatives aimed at creating and disseminating global knowledge and encouraging capacity building in low-income countries should also strengthen the ability of country groups to design poverty action plans. Prominent initiatives include the World Development Report 2000/01 that aims to develop a deeper understanding of the fundamental determinants of poverty and a Policy Research Report on Gender and Development expected in May 2000 that will provide a deeper understanding of gender/poverty relationships. In addition, the Bank's Policies and Outcomes Project will strengthen capacity to undertake poverty analysis and evaluate the impact of public actions.

68. In addition to the various key roles of the Bank in promoting poverty reduction, the proposed approach would entail changes in the ways the Bank and the Fund work together. Designing macroeconomic frameworks, as well as Bank-supported programs, that take into account poverty reduction strategies will require close coordination, and are subject to, *inter alia*, the timetable of the participatory process and the need to iterate to assure consistency.

69. On the one hand, specific programs and expenditure plans initially included in the poverty reduction strategies may need to be modified to ensure fiscal viability. On the other hand, the macroeconomic framework may require more detail and flexibility to accommodate the needs of the poverty reduction strategy. In particular:

- fiscal aggregates would, as now, show levels and shares in budgeted expenditure covering key areas such as health, education and social protection and rural infrastructure, but with more sub-sectoral detail where necessary and to the extent possible;

- the path of fiscal adjustment may need to be modified depending on priority expenditures and the availability of additional discretionary funding, including additional assistance from donors;

- the likely distributional consequences of macroeconomic and structural policy changes would be indicated to the maximum extent possible.

70. These interactions between the government, the Bank and the Fund should be seen as part of the broader participatory effort to formulate and implement a poverty reduction strategy along the lines of a CDF. It is important that a wide range of institutions concerned with development should participate. The government should involve a wide range of domestic institutions including, civil society (e.g., NGOs, unions, and religious groups) the private sector, politicians, the press, and academia. Among external agents, international organizations and other donors and financiers (both official and non-governmental) would be expected to contribute to the formulation of a poverty reduction strategy.

D. Enhanced Poverty Reduction Framework and the HIPC Initiative Process

71. Under the proposed Enhanced HIPC Initiative, it is envisaged that a viable and comprehensive poverty reduction strategy be in place prior to the decision point. As the elaboration of such a strategy will take time, this may not always be possible. In such cases, a process to formulate a comprehensive poverty reduction strategy should be put in place as soon as possible, with the aim of presenting the strategy and assessing its initial implementation in advance of the completion point. In all cases, the HIPC Initiative decision point document will provide an opportunity to summarize the status of a country's poverty reduction strategy. This would include a discussion of the choice of a set of outcomes and targets – which would be informed by comparisons with social indicators for other HIPCs – and the proposed participatory monitoring mechanism. In countries where a poverty reduction strategy is not sufficiently well articulated, it will be a priority to ensure that an appropriate strategy be designed as early in the HIPC Initiative process as possible. Debt relief would be integrated with other sources of external finance to fund the overall strategy. Specific requirements tying debt relief to increased expenditure in certain areas would complicate matters and may run counter to poverty-reduction priorities.

72. While the form of the participatory process used to define priority actions and choose intermediate and outcome performance indicators would vary from country to country; these should be mobilized by the government. There are some standard modalities that could be used, which could include: i) building on an existing poverty action framework; ii) drawing on participatory discussions underlying the CAS and/or CDF process where it exists; and iii) using new participatory processes convened by the government.

73. Cost estimates of achieving intermediate and outcome indicators which would be prepared with the assistance of World Bank staff, would be integrated into the Fund-supported macroeconomic program. The ESAF arrangement would continue to include targets for government expenditures and revenue and domestic credit limits, with forecasts of macroeconomic aggregates. The program for structural reforms and social policies would continue to be supported through IDA and ESAF adjustment credits. For the design of many structural benchmarks, and for the monitoring and evaluation of performance under these benchmarks, the Fund would continue to rely on the Bank's expertise where appropriate. It is likely that an iterative process would be needed to ensure overall consistency of IDA- and ESAF-supported programs with the strategy. Modifications may be considered at this point to the macroeconomic framework and to the targets set for poverty-reduction indicators.

74. The main elements of the poverty reduction strategy would be published as a tripartite document endorsed by the government, the Bank, and the Fund – the Poverty Reduction Strategy Paper (PRSP) (see Box 8). In addition to outlining the strategy, it would describe the participatory process used to define poverty reduction priorities and targets as well as proposed monitoring instruments. It would also show how Bank and Fund lending supports the strategy and require the approval of the Executive Boards of both institutions. Publication of the strategy document would have the advantage of ensuring transparency. This would generate valuable information and incentives in countries with underdeveloped participatory mechanisms.

75. It is proposed that there be an annual tripartite review of the poverty reduction strategy. This should not only monitor progress, but also be used as an opportunity to modify the strategy in the light of new developments. The review would be published as a short document to be circulated to the Executive Boards of the Bank and the Fund.

76. The PRSP would, over time, and provided it included all the elements described in box 8, be expected to take the place of the PFP. Starting with the pilot cases for closer cooperation between the Bank and Fund, and countries going through the HIPC Initiative process, it is expected that PRSPs would become the centerpiece more generally in all ESAF arrangements.

77. For the Bank, the CAS would play an enhanced role in the process. It would incorporate the intermediate and outcome indicators of the poverty action strategy as its objectives and, as practicable, ensure that annual information was available on such indicators. It would also reflect the overall strategy, establish priorities for Bank-support lending operations and the contributions of the Bank and other IFIs. In IDA countries not participating in the HIPC Initiative, it would use actions specified under the poverty action strategy as the basis for determining lending triggers.

78. Planning for the CAS (and where appropriate the overarching CDF) would provide an opportunity to reinforce the participatory process to: (i) articulate or refine the poverty reduction strategy; (ii) select poverty-related targets, outcomes and intermediate indicators; (iii) establish a process for regular review of the indicators and implementation of the poverty reduction strategy.

Box 8: The Proposed Poverty Reduction Strategy Paper (PRSP)

Content

To support the government's effort to formulate and implement a poverty reduction strategy, we propose a new vehicle—a Poverty Reduction Strategy Paper (PRSP)—that would have the following essential characteristics:

- It must ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development.
- It should serve as the basis for designing Bank and Fund lending operations, and as a framework with which all ESAF- and Bank-supported programs should be consistent.
- It must be produced in a way that includes transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation -- with ultimate ownership by the government.

The first two of the key characteristics noted above imply minimum requirements for the content of the PRSP, namely:

- Medium- and long-term goals for poverty reduction and social development, with a range of relevant outcome-related indicators for monitoring progress in areas key to poverty reduction (which will include but not be limited to the social sectors).
- A macroeconomic framework consistent with the poverty reduction and social goals (over a minimum three-year horizon).
- The structural reforms and priorities and sectoral strategies (a three-year agenda) and associated funding needs (domestic and external) necessary to deliver the growth and poverty reduction objectives.
- Anti-poverty and other social policies, linked to an analysis of the social impact of macro and structural policies, and associated funding needs (domestic and external).
- Overall external financing needs (including technical assistance needs and expected providers) for each year of the program.

Process

Governments would be expected to take the lead both in drawing up a PRSP and in conducting consultations with civil society and other stakeholders. The consultative process could, however, be facilitated by the Bank, with the involvement of the Fund on macroeconomic policies and in relevant structural areas, and others where appropriate. Governments may also need to seek extensive technical assistance—including from the Bank and Fund—on the elaboration of policies within the PRSP.

A full-fledged reworking of the PRSP might take place, say, every three years. Annual reviews and updates would be necessary in the interim, however, if the framework were to remain sufficiently current to be a basis for Bank and Fund lending operations. The extent of these updates would depend in part on the comprehensiveness of earlier PRSPs and on the results of a review of selected outcome indicators.

The PRSP would be sent to the Executive Boards of the Bank and the Fund, both of which would take formal decisions endorsing the PRSP as the framework for each institution's lending operations. The final version of the PRSP would be published at this point (although drafts would likely have been made publicly available during the consultative process).

79. HIPC Initiative documents would analyze key determinants of poverty in the country and specify the key subset of indicators around which review of progress would be assessed and the participatory process to be followed to monitor progress. These indicators would include intermediate benchmarks linked to poverty reduction. In the absence of a CAS or CAS Progress Report in the year prior to the decision point, the President's Memorandum of the HIPC Initiative decision point document would specify Bank lending triggers based on progress in the implementation of the poverty action strategy.

80. Caution would be exercised in applying the new framework to HIPCs that have already passed their decision or completion points. The implementation of the new framework should reinforce poverty reduction in such countries, but should not unduly delay the provision of additional debt relief in countries already having a well-defined poverty reduction strategy. So far, four countries (Uganda, Bolivia, Guyana, and Mozambique) have already reached their completion points, while a further five countries (Cote d'Ivoire, Benin, Mali, Senegal, and Burkina Faso) have passed their decision points. It is suggested that these countries be treated on a case-by-case basis.

81. There are many other practical and procedural issues relating to the PRSP which would need to be considered carefully before the concept could be put into operation. Two are particularly noteworthy: (i) the need to develop some transitional arrangements under which Bank and Fund operations could continue in the near term, while allowing time for countries to complete their first PRSPs; and (ii) when an ESAF/IDA-eligible country without a current ESAF- or Bank-supported program suddenly faces an urgent balance-of-payments need, and financial assistance is warranted but on a timetable that does not permit the prior development of a PRSP.

82. ESAF- or Bank-supported programs would be consistent with the most recent version of the PRSP. In some circumstances, deviations may be necessary in programs that are finalized between the annual update of the PRSP, in which case, such deviations would need to be explained and justified in Board documents. The need for, or extent of, consultation outside government on such changes would be determined by the national authorities. It is proposed that, if the concept is approved, staff would return to the Executive Boards after the upcoming Annual Meetings with concrete proposals on implementation.

E. Floating Completion Points

83. Under the proposed modifications to the HIPC Initiative, the relative length of the second stage would depend on the speed of progress in the areas of structural and social reform and poverty reduction, subject to stable macroeconomic policies (see Box 3 of the Modifications paper). Against this background of poverty reduction, in cases where a floating completion point has been agreed at the decision point, there is a need to specify the expected nature of the conditions required in these areas to reach a floating completion point.

84. Tying floating completion points to conditions which can be stipulated precisely at the decision point would have the advantage of making clear to the government, as well as civil society, the requirements for meeting the completion point.[20] Key steps towards poverty reduction could include, e.g. land reform, the removal of price distortions which hurt the poor, or reductions in user-charges for health and education services. It should be noted while it is desirable to have conditions that can be unambiguously monitored, even carefully selected proxies and intermediate indicators of health and education outcomes are not fully under the control of the authorities. In view of this, it is proposed that the assessment would retain an element of judgment as to whether a critical mass of reforms and improvements in the delivery of social services to the poor had been met.

V. ISSUES FOR DISCUSSION

85. This paper has elaborated on a number of proposals to strengthen the poverty focus of Bank-supported and Fund-supported programs, and the link between debt relief and poverty reduction in HIPC Initiative documents. Executive Directors' views are sought on the following proposals suggested in the document:

1. Do Executive Directors agree that the best way of ensuring a robust link between debt relief and poverty reduction is to ensure the effective use of all available resources – including domestic revenue and debt relief – towards the goal of poverty reduction? Do they agree that this would be supported by the integration of HIPC Initiative decisions into a comprehensive effort to enhance the poverty impact of Bank- and Fund-supported programs?

2. Do Executive Directors agree that poverty reduction strategies included in Bank- and Fund-supported programs should build on existing frameworks within each country for poverty reduction, revolve around a clear set of outcome-oriented goals (in the context of the international 2015 objectives), involve quantified intermediate indicators, and involve broad participation by civil society in their formulation and in the selection and monitoring of output indicators?

3. Directors' views on the content, process, and format of a proposed PRSP are sought. Do Directors agree that the aim should be to introduce PRSPs to as wide a range of countries as soon as possible, beginning with HIPCs and the pilot cases for closer collaboration between the Bank and the Fund? Do Directors agree that where a PRSP, including all the elements set out in Box 8, is available, there would be no need for a PFP?

[20] In Bank-supported adjustment operations, progress required in the social sphere for the release of a floating tranche have been defined unambiguously at the outset.

4. Do Executive Directors agree with the objective of having a poverty reduction strategy in place by the decision point, summarized in a document agreed by the government, the Bank and the Fund as a basis for HIPC Initiative decision points? Do they agree that, in the transition period, a HIPC Initiative decision point could take place while the formulation of such a comprehensive strategy is still in progress—provided the government is committed to a firm timetable for the formulation and implementation of a poverty reduction strategy which would be in place well before the completion point?

5. Do Executive Directors agree that in HIPCs that have already reached their decision or completion points under the current framework, the timing of the proposed additional debt relief would be determined *inter alia* on an assessment of their progress in designing and implementing their poverty reduction strategies?

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Annex 1: Respondents' Views on HIPC Initiative

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
U.S. CATHOLIC CONFERENCE	HIPC should focus on three issues: i) relief sufficient to contribute to poverty reduction. Advocate criteria for measuring debt sustainability that are based on government's ability to meet needs of people. ii) adoption of mechanisms to redirect resources to poverty programs, cites Uganda's Poverty Action Fund as an example. iii) a central role for civil society in determining priorities for poverty reduction and monitoring use of funds.	Debt relief must not only improve conditions for the long-term, but provide help to people immediately. Budget constraints must be addressed right away if space is to be created to allocate more investment to schools and health clinics. The time frame for receiving relief must be reduced to a maximum of three years. Proposals to provide "interim" relief at the decision point are inadequate because they relegate to creditor undue power to determine eligibility and amounts of relief. Debt relief should take into account a country's actual debt service payments, not simply amounts due. Cites Uganda's slide back toward debt unsustainability due to coffee price declines. Fiscal burden should be main criteria.	Any effort to improve debt management requires greater transparency on part of creditors and efforts to empower debtor's ability to negotiate on their own behalf. Bank and IMF should provide technical assistance to ensure that government officials have complete, accurate information about loans and creditors: The team conducting debt sustainability analysis should be broadened beyond Bank and IMF staff to include as full partners trained people from debtor governments and civil society; information about Paris Club and HIPC Initiative should be better shared with debtor government officials and civil society; and discussions on future borrowing and repayment strategies must be broadened.

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
WORLD VISION	HIPC must pay much closer attention to the plight of children. Based on current trends, will not reach 2015 targets on child mortality and other indicators. First way to ensure that financing released from debt service reaches the poor is through greater accountability, on the borrower and the lender side, which means full transparency in the lending and repayment processes. Second, conditionality must be reformed. Current structural adjustment programs too narrowly defined. Policy fundamentals must address issues of equity, economic growth and stability, and political legitimacy. Endorses Jubilee 2000 proposal: debt relief should be recycled as scheduled payments diverted to support additional expenditures on human resource development directly beneficial to the poor. Under the supervision of a debt management panel or board within the WB-IMF system involving wide civil society participation.	Current system is too slow, does not provide fiscal space because debt servicing payments remain high and stock relief takes too long.	Avoid future debt traps by helping each HIPC to develop a sustainable diversified export sector so future loans can be repaid; greater transparency and accountability in borrowing; countering corruption; creating process for international bankruptcy—with special provisions made for the seizure of assets of kleptocrats; avoid problems associated with exchange rate shifts.
MOZAMBICAN DEBT GROUP	Expanding expenditures does not per se guarantee linkages between debt relief and poverty reduction. Must ensure that money is directed at appropriate areas and spent effectively. This requires a participatory selection of priority areas and transparency in government budgets and Bank-and Fund-supported adjustment programs.	Reduction of debt overhang is important, but debt servicing must be addressed to free up resources for such things as infrastructure necessary to attract foreign direct investment.	At the technical level, government institutions and central banks need trained personnel and debt frameworks comprising all sources of loans, both private and public. Decisions on raising capital must be taken at home. Also, must have much greater participation of civil society in all public sector borrowing decisions.

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
IRELAND	Favors clear and explicit link between debt reduction and social expenditures, including "ring-fencing" social expenditures. Favor developing in conjunction with HIPC, a clear implementable poverty action framework, agreed upon with partner governments and civil society.	(none given)	Citing Ireland's own debt management history, stresses the necessity of expertise in debt management. Particularly, successful establishment of debt management agency outside the civil service, but under supervision of Ministry of Finance, with personnel from finance ministry and private sector, and responsibility for debt issuance and management, risk and portfolio strategy, legal and corporate issues, and information and technology operations. Based on this experience, recommends devising a code of best practices on debt management.
THE NORTH-SOUTH INSTITUTE	Look forward to the further consultations that will take place (between the international financial institutions and other institutions) to develop that initiative's broad framework. It is important that the IFIs ensure that these countries do not resort to policies known to be unworkable or policy regimes that contain inherent inconsistencies. However, it is equally important that they commit to allowing space for policy choice even in the weakest economies.	Multilateral debt reduction commitments are made in relation to, but outside of, Paris Club commitments. Although, for reasons of comparability, the amount of debt to be forgiven has to be measured in terms of debt stocks, it can readily be implemented as flow reductions. Propose that multilateral debt reduction should be implemented as a flow relief. To a certain extent, the IMF already does this when it uses ESAF grants in escrow accounts to cover debtor countries' debt service payments. Suggest that arrangement be formalized for all international financial institutions (including the regional banks). Furthermore, debt relief payments should be flexible, not fixed.	(a) As a condition of debt forgiveness, countries should commit to a clear upper limit on future debt exposure. (b) We suggest the development of a Debt Insurance Fund that can be used to cover at least part of the required debt service payments for these countries when they face extreme conditions.

Organization	**Question 1: Poverty Reduction**	**Question 2: Delivery of Debt Relief**	**Question 3: Debt Management**
UK	British government regards closer link between debt relief and reducing poverty as the very rationale of a revived HIPC. Relief should only be available to countries seriously committed to poverty reduction—should reward progress, outcomes. For this reason, wary of adding new short-term conditions. Instead, debt relief should be integrated with strategies aimed at encouraging long-term poverty reduction. i) The Comprehensive Development Framework provides mechanism for national leadership and integration of donor support. ii) Medium-Term Expenditure Frameworks, as developed in Special Program for Africa (SPA) and in consultation with IMF. iii) Code of Social Principles being discussed by World Bank and UN, building on Copenhagen Social Summit resolutions. Framework for ESAF conditionality and new Enhanced Poverty Framework called for by G-7 need to be brought together, and analysis is needed on how closely HIPC relief should be linked to ESAF.	Flow relief and stock relief. Because a more effective link between debt relief and poverty reduction will require resources, in early years debtors need a substantial reduction in their actual debt service payments. Creditors can facilitate this by delivering part of the NPV reduction as flow relief—reductions in debt service in early years while loan itself remains on the books. But this must be accompanied by complementary debt stock relief to generate private investment. (propose that phase II of HIPC Review study this link; to study trade-off at the margin between flow relief for essential government spending and stock relief to reduce overhang).	Specific Proposals i) As part of decision and completion point documentation, Bank and IMF should analyze time profile of a country's debt service, and put forward menu of options for achieving NPV reduction, taking into account procedures of different creditors. ii) menu should include option of reducing multilateral debt service by 50%-75% in early years, and another which delivers as much as much as possible of the post-completion point relief as stock reduction; iii) Debtor country should have wide latitude in negotiating these options.
WEST AFRICAN CENTRAL BANK	A stronger link requires closer integration of civil society in policy choices to monitor not just design but implementation of adjustment programs. This is essential for stronger governance and public sector management. This will help better integrate improved social policies into economic reform strategies.	Reduction of debt stock and debt service reduction are equally important.	Debt management requires trained people and adequate systems information technolology.

Organization	**Question 1: Poverty Reduction**	**Question 2: Delivery of Debt Relief**	**Question 3: Debt Management**
HALIFAX INITIATIVE	HIPC Initiative should not be regarded as a tool for social development, but can be used as an addition to development assistance. Debt relief should be immediate as part of a substantial dialogue on development priorities, provided to all HIPCs in absence of egregious human rights violations. Conditionality must be changed, and debt relief de-linked from Bank-and Fund-supported adjustment programs. Relief should be connected to policy dialogue with countries, not prescriptions. Design of programs and delivery of services must stay with countries.	Because most countries can expect to pay more in debt service even after reaching the Completion Point, program must be changed to address debt servicing to open up fiscal latitude.	(none given)
SEDOS	Change conditionality from structural adjustment toward social spending	(none given)	Recommends looking to creditor lending management.
UNCTAD	Institutional reforms (eg anti-corruption measures) with a coherent and comprehensive approach by the many parties involved; flexible conditionality.	Long-term problem of debt overhang should be removed in order to address the more immediate debt problems arising from falling commodity prices and worsening global economic problems.	Efforts at improving debt management should concentrated in six major areas: 1. Securing active and sustained support for debt management from the government; 2. Establishing an appropriate legal framework for the work of the debt office; 3. Improving communication and co-ordination between local financial agencies; 4. Ensuring the retainment of trained and experienced staff; 5. Implementing an effective computerised debt management system; 6. Improving co-ordination between the international assistance-providing agencies.

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
NORDIC NGOs	Comprehensive cancellation of debt not linked to ESAF	See "Poverty Reduction"	The dialogue and the process between the creditors, the debitors and the civil society should be transparent and democratic
JESUITS FOR DEBT RELIEF AND DEVELOPMENT	"Civil participation is the key to ensuring a permanent solution to the crisis and real and lasting development"" Lower sustainability thresholds; A fiscal indicator would be more appropriate than an export indicator, due to the export indicator discriminating "against open economies and falling commodity prices"; "Conditionality must be owned internally and verified both internally and externally"; Built-in mechanisms should exist for "active participation of civil society in partnership with political structures in assessing targets for resource flows"; Regional targets may be more practicable than DAC targets; Unlink HIPC from ESAF, due to political considerations that "fly in the face of fostering of internal self-determination".	Whilst reduction in servicing levels is the immediate priority, the stock must also be reduced as current overhangs have significant negative impacts on investments Debt Management: Should come in three phases: HIPC itself, which is the first step in developing permanent structures to deal with debt; The development of "orderly debt workout mechanisms" overseen by regional development banks. These mechanism would include all creditors, including bond holders and the IFIs; The development of a full insolvency procedure or international debtor court, in lieu of a common code of international bankruptcy law. In preparation for this phase the World Bank could co-ordinate a legal think tank to propose a design on common international bankruptcy law.	(none given)

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
ICFTU	A track record of policy performance should be linked to commitment to and implementation of "strong social policy which prioritises people-centred development, poverty eradication…and the promotion of core labour standards", and "the ILO's technical assistance machinery should be used to build or improve a foundation of stable industrial relations".	The HIPC Initiative's "less than generous arrangement still leaves the country deflecting a sizeable portion of its scarce foreign exchange earnings into debt-servicing for an indefinite period of time"; A complete overhaul of the Initiative: The waiting period should be eliminated and the period to the completion point considerably reduced with a shortening of the waiting period to qualify for consideration for debt relief; ESAF lending should not be used as a basis for determining a country's track record of implementation of macro-economic policies; HIPC Initiative should be de-linked from ESAF and IMF funding of HIPC should be channeled through a Trust Fund operating under far more flexible conditions. Resources for the Trust Fund should be raised through the sale of a part of the IMF's gold reserves.	See previous statement on co-ordination with ILO's core labour standards.
EURODAD	"Social organizations and NGOs in the South and the North…want the adoption of verifiable and transparent mechanisms for monitoring the money released by debt relief"; Conditionality must be defined by "Southern civil society".	"Immediate debt service cancellation for a number of years, as debt repayment remains unsustainable. Debt sustainability is to be assessed with the 'affordable debt service approach', empirically tested to be around 7% of debt service/exports; "By spreading the debt cancellation over a longer timeframe – in the form of cancelling debt service payments as they come due, Northern creditors and IFIs will be able to finance the debt cancellation scheme much more easily…Such a commitment must be put to contract, which will then also demonstrate to both foreign and domestic investors that in fact a debt stock reduction is envisaged.".	Debt cancellation must go hand in hand with the establishment of a system in the debtor country which enables local civil society to themselves monitor whether the money released is used for poverty eradication and human sustainable development; "loans, and particularly 'hard' loans (at commercial interest rates), should not go to sectors, programmes, and projects which do not generate hard currency or make profits."; De-link HIPC and ESAF

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
BREAD FOR THE WORLD INSTITUTE	Reduce annual debt service payments in the short-term and release resources for health, education, nutrition and other basic human needs; "Eligibility for HIPC Initiative debt relief is conditioned on 'good performance' in the implementation of IMF and World Bank reform policies. Some of these policies (eg privatization, VAT taxes, etc.) can have adverse impacts on poor populations. [This] contradicts [the HIPC Initiative's] intended human development and poverty reduction goals". ESAF, in some cases, hurts the poverty reduction aspect of debt relief.	Immediate reduction of annual debt service payments should not be secondary to reduction of overall debt stock and in many cases is more important.	"Savings from debt relief should be directed toward poverty reduction and human development programs through the use of Human Development Funds…The Human Development Fund would be monitored by an oversight body [with representatives from all sectors] …charged with the responsibility of ensuring that expenditures of monies from the Human Development Fund were accountable"; "Decisions regarding a country's eligibility, terms, conditions or timing of HIPC debt relief should participatory and transparent. All relevant analytical, legal and policy documents should be available to civil society organizations.".

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
OXFAM and UNICEF	Debt relief should be seen as one element in a broader financing strategy for achieving, on a country-by-country basis, accelerated progress towards the 2015 human development goals. Other developments in the policy environment, such as: (i) *Sector-Wide Approaches* (SWAPs), support a transition in development assistance from a project-based approach to a programme-based approach under government leadership, thus creating national ownership. Donors now recognize that even the most stringent conditionality will fail in the absence of national ownership. (ii) The parallel development of Medium-Term Expenditure Frameworks (MTEFs) is helping to create a budget environment in which longer-term planning, transparency, and priority setting in resource allocation become possible. Donors are also developing strategies which place poverty reduction at the heart of macro-economic planning. Current policy environment is conducive to a poverty-focused HIPC Initiative, which must be designed to support and reinforce integrated poverty reduction strategies like the CDF, which are placed at the center of macroeconomic design.	A two-phase approach: (i) To the Decision Point Debtors would be required to establish a track record indicating a commitment to a continued economic reform process and poverty reduction. However, the eligibility criteria would be reformed. Preferably, multilaterals and other donors would reach agreements with individual governments on more flexible criteria for macroeconomic adjustment geared towards poverty reduction goals. The other alternative is to bring ESAF targeting parameters into line with the policy requirements for achieving the 2015 targets. (ii) The Interim Period to the Completion Point Debtors would be required to meet one condition: a capacity to integrate debt relief into the national poverty reduction strategy. While some countries could proceed immediately from the Decision point to the Completion Point, generous interim debt relief flows would substantially reduce the costs of delayed progress for HIPCs with less well-developed poverty reduction strategies. Budget revenue is a much more relevant indicator than exports. Debt-for-Development Plan would also help to define the most appropriate rate of debt disbursement.	Debt for Development Plan would provide for a broad indication of expenditure plans and would be developed with bilateral donors, United Nations agencies and the World Bank, and presented to the national consultative group for approval. Plan would not provide a checklist for project-by-project auditing, but would act as an agreement of understanding between creditors and debtor governments over spending intentions. The Ugandan Poverty Action Fund could serve as a useful model, though not as a blueprint.

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
ODI Paper (Healy, Foster, Martin, White)	I. Propose new approach to performance criteria for meeting poverty reduction objectives under HIPC II. - Recommend switch from micro-targets and earmarking of funds to a more comprehensive process approach. Move toward budgeting processes to ensure more effective poverty framework. The key would be an effective Medium Term Budget Framework (MTBF) with a medium term rolling budget. - Government—and its plans and priorities—must be at the center. - Broad benchmarks should be established to judge progress, which would replace not add to existing reform conditions. - ESAF should be reformed to be more compatible with poverty reduction objectives. Greater flexibility in setting budget limits so aid and budget resources released by debt relief can support higher social spending. In particular, deficit targets should be set after (not before) inclusion of grants. - Completion under the HIPC Initiative should be reached once poverty reduction benchmarks have been satisfied and country has remained "broadly on track" with its macro stability conditions. - For all poor countries, need to establish a public mechanism to review progress toward 2015 targets. This would look at aid and debt relief needs of all poor countries.	More attention needs to be given to debt service burden. Formal triggers under the HIPC Initiative should relate more to revenues than exports, i.e. the ratio of debt service to budget revenue. Depth of relief should relate to the degree of discretionary revenue available to countries. To accelerate relief, move to "floating conditionality" to move from decision to completion point as rapidly as possible. Front loading of debt service reduction should be the key priority in the implementation of HIPC II. Additionality of sources of funding for the HIPC Initiative should be carefully monitored	(none given)

Organization	**Question 1: Poverty Reduction**	**Question 2: Delivery of Debt Relief**	**Question 3: Debt Management**
CAFOD	The expansion of the debt/export ratio proposed at Cologne is welcome, but still does not address sufficiently HIPC levels of poverty. We propose an alternative set of measures which look explicitly at what amount of resources are required from debt relief to reduce poverty to 2015 targets. Propose the following Guidelines for Conditionality -Simplify and reduce the number of conditionalities in favor of a broad-based, in-country policy design. -In shift toward country ownership, particularly where country lacks necessary technical resources in budgeting and planning, IFIs (IMF) should shift from conditionality broker to technical assistance provider. -Where there are to be conditions, they should be on enabling development. For instance, in macroeconomic planning, need development of more widely accountable and transparent budget management systems. Monitoring and compliance of policy performance should be by HIPCs themselves. -ESAF programs have shown a weak causal relationship with economic growth and poverty reduction outcomes. ESAF can no longer be considered an appropriate instrument for poverty reduction goals. Ideally, we would want to see the delinking of debt relief from ESAF. Assurance on fiscal and monetary performance is necessary, but performance should be based on a broader set of criteria. Freedom of debate and basic civil liberties are conditions which must be in place.	The focus on exports and reducing debt overhang is insufficient. Greater focus needs to be given to fiscal demands of poor countries struggling to met basic social needs.	(none given)

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
CHRISTIAN AID	Three crucial factors are required to make debt relief resources effective in reducing poverty: political will; capacity and effectiveness in the delivery of services; and reduction in corruption and fraud. Current conditionality framework under which HIPC operates, particularly the link to ESAF, mitigates against each of these criteria. Most effective way of establishing each of these elements is to open up the process to wider participation of civil society. Proposes the establishment of an instrument to facilitate this opening, which would include government, creditors and donors, civil society and technical experts from multilaterals. Could be modeled after Uganda's Poverty Action Fund, the national Dialogue in Bolivia or World Bank's Comprehensive Development Framework. Political openness and freedom of speech and dissemination of information is a key to making any such fund function effectively.	While welcome, the expansion of the HIPC Initiative proposed in Cologne will not allow HIPC governments to meet national human development needs. The focus on exports leaves unaddressed key fiscal demands. The debt service obligations in many countries will be only marginally decreased. Would also like a moratorium on debt service for the poorest countries such as Tanzania.	Because the National For a structure would look not just at debt relief budgeting, but also flow of new borrowings, could contribute to a more effective debt management system. Proposes using a small portion of donor resources be devoted to building capacity of government and civil society to manage resources and monitor their use.

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
EU	The social content of the HIPC to date is limited to an assumption that with a tenable external balance, there might exist more resources and that these resources might be spent on social sectors. New approach should ensure that additional resources are freed and used in the social sectors. One tool to help move in this direction would be the use of social outcome indicators and measures of sound management of public finances. This will require global coordination on social policies, but successful measurements must be established and owned by the governments themselves; indeed, a focus on performance leaves the choice of policy in the hands of the government. Performance indicators have worked as part of the Special Program of Assistance for Africa (SPA). We acknowledge the tension built in between meeting targets and providing faster aid. Social reform and progress takes time. This not unduly slow relief. Social indicators are not by themselves a panacea. To have a lasting impact on poverty, economic (including ESAF) and social reforms must involve NGOs and civil society.	Enhancing the HIPC Initiative's social content implies focussing on debt service relief rather than on debt stock. Greater emphasis must be placed on creating more fiscal space. This is also useful for financing concerns, as addressing debt service rather than stock allows spreading over time the cost of financing, easing creditor participation while better securing financial viability. Also best way of assuring additionality. This approach implies a shift from argument that debt relief should emphasize attracting foreign investment by reducing debt overhang.	(none given)

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
WORLD VISION, RWANDA PROGRAM	Debt reduction in a country like Rwanda must be substantial to address a wide range of budgetary challenges from high levels of poverty and drastic social needs as well as demands arising out of reconstruction efforts. Rwanda also needs relief on a faster timetable than currently envisioned under the HIPC Initiative schedule. Early debt relief is needed not just for social and economic needs, but to help prevent the country from falling back into conflict. Rwanda proposes setting up a Poverty Action Fund within the context of the national budget to ensure funds released are used to finance priorities of a poverty eradication action plan. Economic reforms must not be left to the multilateral financial organizations. Programs must be consistent with poverty reduction. Need greater accountability—on the parts of creditor and debtor—with far greater input from local civil society, not just large NGOs. In particular, more needs to be done to bolster trade and pave the way for a healthy private sector.	Debt stock reduction is not enough. In a country facing the challenges Rwanda faces, the debt servicing burden must also be addressed. This faces up to the fact that much of its debt is not being serviced, and that any movement forward on debt relief must look to the actual impact; not just bookkeeping.	A Poverty Action Fund, by opening up the process of not just debt relief but government borrowing and spending practices, will yield improved debt management

Organization	Question 1: Poverty Reduction	Question 2: Delivery of Debt Relief	Question 3: Debt Management
UNDP	Proposes the Creation of a National Partnership Facility (NPF) to serve as an institutional anchor to forge partnerships with all stakeholders aimed at lasting poverty reduction. This is crucial for opening the participation of a broader set of actors in development process, critical for establishing national consensus, commitment and ownership. The NPF would act as a forum which would include, and operate alongside, government to set out national development priorities, needs and solutions.	In addition to widening dialogue and participation, the NPF would: - Promote Community Driven Development, focusing on the delivery of services to under-served areas and marginalized communities, while building local capacity. - Facilitate community input into government budgeting and priorities	(none given)

Annex 2: Social Sector Policies in Countries That Have Reached Their Decision Points

1. Progress in social sector policies has been an integral part of the design of the HIPC Initiative.[21] As with macroeconomic and structural reform, inadequate implementation of agreed social reforms in the second stage can delay assistance under the Initiative. The Bank has been responsible for monitoring the Government's progress in implementing social reforms through the supervision of IDA projects.

2. In most countries poverty assessments have recently been completed, typically with World Bank assistance. However, not all countries have elaborated integrated poverty reduction action plans. Such plans have been developed in Uganda and Mozambique and progress has been made in implementation, including the integration of strategies for key sectors with medium term-expenditure plans. However, these plans have only recently been developed. Other countries have adopted a more partial approach using medium-to long-term sectoral strategies in education (Burkina Faso, Mali, Guyana), health (Bolivia, Mali) and, in some cases, for rural development.

3. A wide range of social outcome and intermediate indicators has been used for monitoring social reforms in HIPCs.[22] A limited number of indicators in primary health and education i.e. gross and net enrollment rates and vaccination rates, have been common to most cases, reflecting their priority for poverty reduction, data availability and the ability to monitor progress. In terms of inputs, every program has targeted a measure of education and health spending in total current spending, with several also including sub-targets on basic education and health outlays.[23] Typically, these action plans, sectoral strategies, and indicators have been broadly linked to the goals set under the DAC's *Shaping the 21st Century* strategy.

4. Overall, in the four HIPCs that have reached their completion point under the Initiative, significant progress has been made in implementing the social reforms specified at the decision point.

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21 *The HIPC Debt Initiative – Elaboration of Key Features and Proposed Procedures* (EBS/96/135 and IDA/SecM96-927).

22 Driven by data availability, monitoring has typically been undertaken on an annual basis. There have, however, been exceptions such as the introduction in Uganda of a system of quarterly reporting to the Ministry of Health on the revenues and expenditures of health units.

23 More generally, a review of the Policy Framework Papers for 44 countries that had ESAF programs between 1994-98 found that 80 percent sought increases in public spending on education and health care during at least one year, and 60 percent set quantitative targets to this end (see Review of the IMF's Approach to Social Issues and Policies in IMF-supported Programs (forthcoming)).

- In **Uganda**, government's implementation of its Universal Primary Education (UPE) plan, including a 37 percent increase in funding in the 1997/98 budget, resulted in a significant increase in primary school enrollment.

- Targets on public spending for education and access to primary education were generally met in **Mozambique**, but improvements in educational quality, i.e. increases in the number of qualified primary school teachers, repetition rates, have proved more difficult. Progress in the health sector has been encouraging, with all the targets for improvements in the access, delivery and quality of health services being met or exceeded. Notably, the share of the government's own budgeted current expenditures devoted to health was 9 percent in 1998 compared with the target of 8 percent, and vaccination coverage of 77 percent in 1998 was well ahead of the 60-65 percent target established.

- Despite some delays, **Bolivia's** progress in implementing the policies and quantitative targets in the social matrix agreed at end-1997 has been satisfactory. Coverage and completion rates in primary education have increased in line with targets, a national health strategy has been published and a majority of the quantitative targets in the health sector have been achieved, and a strategy for the use of social and rural development funds has been introduced. The major constraint on social reform in Bolivia has been weaknesses in institutional capacity, which have delayed the completion of plans to execute some key policies.

- The overall implementation of social sector policies and programs in **Guyana** has also been broadly satisfactory, with social spending as a percentage of GDP in 1998 exceeding the target set at the decision point. As with Bolivia, weak implementation capacity has been a problem, and this has been compounded by a period of civil unrest, which delayed budgetary allocations and compliance with subtargets for social spending.

Annex 3: HIPCs: Debt Service Due versus Paid, Social Spending and External Inflows

This annex provides an indication of the likely magnitude of the reduction in annual debt-service payments that could result from the modifications to the Initiative proposed in the separate Board papers. As explained below, these estimates of the nominal decline in debt-service payments are inevitably tentative. Nonetheless, they illustrate the significance of the possible cash-flow impact of debt relief in relation to current levels of GDP, exports, gross inflows of foreign aid, and social spending for a sample of HIPCs.

Before turning to this issue, it is important to place recent data on HIPCs' debt service payments in a similar context. Some commentators have argued that debt service payments by HIPCs have often exceeded social spending by a substantial margin. However, it is important to base these comparisons on *actual* debt service payments—this is, after debt relief—rather than scheduled debt service, which is the concept used in balance of payments methodology. Most HIPCs have benefited from a significant reduction in the debt service burden before assistance under the HIPC Initiative, [24] but this debt relief is not reflected in a corresponding decline in scheduled debt service as recorded in the balance of payments. For example, in 1998 scheduled debt service on Mozambique's public external debt amounted to US$396 million, whereas debt service actually paid in1998 was US$104 million or well under one-third of the scheduled amount.[25] By comparison, Mozambique's expenditure on health and education spending in 1998—excluding some spending financed by external aid flows—amounted to about US$120 million.

A comparison between debt service paid and social spending alone also provides only a partial view of the relationship between international official resource flows and social spending. Again, Mozambique illustrates the point: in 1998, gross external financing (in new loans and grants) amounted to almost US$713 million. Thus after debt-service payments, the net official resources flow to Mozambique in 1998 was close to US$604 million, or more than four times the recorded total of education and health spending.

A similar picture is evident for many other HIPCs. Chart 1 illustrates for the first seven cases, as well as all 28 HIPCs where data is available, the relationship between debt service paid in 1993–97, gross external financing and social spending. It is clear that gross external financing inflows significantly exceed social spending and debt-service paid for the seven HIPCs that have reached their decision point; gross inflows of external assistance averaged some 14 percent of GDP for this group, while their expenditures on health and education averaged about 6 percent of GDP, and debt

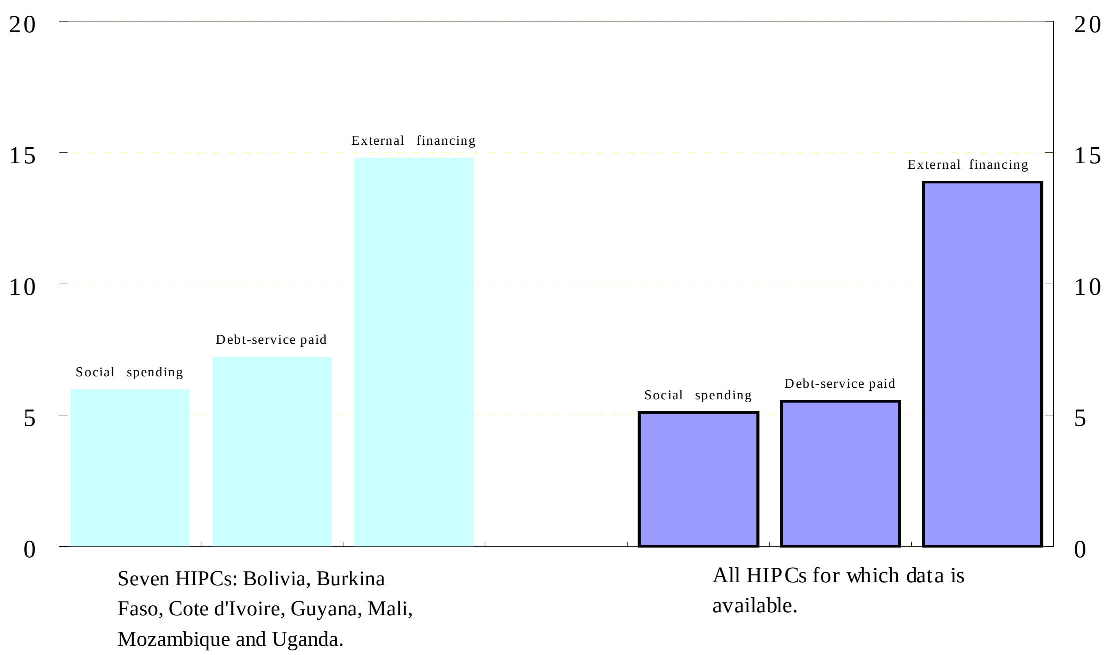
[24] Preliminary estimates suggest that traditional debt relief mechanisms (i.e., concessional reschedulings in the Paris Club for low-income countries) have, since 1988, reduced the NPV of HIPCs' debt by some $19 billion. In addition, bilateral cancellations of the ODA debt of HIPCs has amounted to at least some $20 billion in nominal terms.

[25] A rescheduling of payments falling due actually increases the scheduled debt service recorded in the balance of payments, as a result of the additional payments due resulting from the rescheduling. A counterbalancing item of debt relief obtained is shown in the financing section of the balance of payments. The difference between these two items is the cash debt service expected to be paid.

service paid about 7 percent. Aggregate data reveal a similar picture for the broader group of 28 HIPCs for whom data is available. While average debt service paid was some 6 percent GDP for this group and social spending averaged 5 percent of GDP; for most of these countries social spending actually exceeded debt service paid.

Application of the proposed modifications to the HIPC Initiative framework to the seven countries that have reached decision points would result in lower debt-service payments on average by about one-third, or some 2 percent of GDP, in the five years after the completion point compared to the five years to 1997. While these calculations are only illustrative and differ in individual HIPCs, they nevertheless provide a useful indication of the relative magnitudes. At these levels, the savings from debt relief could represent a significant contribution to social spending in HIPCs even though other official development flows are likely to remain the major source of external resources available for this purpose.

External Debt-Service Paid, Gross External Financing and Social Spending



In percent of GDP (Average for 1993 - 97)

Source: IMF estimates.

Note: Comprehensive data on social spending is not available for all HIPCs, but only for 28 countries. Social spending is defined as health and education spending. Excludes countries where only one category of spending is available, and those where only partial expenditure (current or capital) is available.

Annex 4: Poverty Action Plans in HIPC Countries

Virtually every HIPC country has at some stage prepared a poverty assessment and developed a poverty action plan, although the level of commitment and participation in these plans has varied. Two countries whose poverty action plans have featured in HIPC country documents are Uganda and Mozambique. These have been identified as examples of effective action plans because of the level of ownership and commitment displayed, and the broad-based participation of civil society in their development.

Mozambique's poverty action plan was approved by cabinet in April 1999, in time for the HIPC Completion Point document in July of that year. The poverty assessment and the household survey, financed by the World Bank, entailed significant capacity building and inter-ministerial consultations. The Government involved civil society including the International Food Policy Research Institute, universities and donors in the analysis, writing and development of its poverty assessment. The sector-specific objectives of the ensuing Poverty Action Plan were completed through inter-ministerial discussions. The Plan is a broad-based approach, which aims especially to target the rural poor, covering income generation, access to roads, delivery of social services, and rural and agricultural development. Although the plan is relatively new, and work still needs to be done to broaden the scope of consultations, the Government's objective is to develop an operational matrix for the Poverty Action Plan that would link it to the budget and the medium-term expenditure framework through costed programs.

In **Uganda**, the Poverty Eradication Action Plan (PEAP) is the culmination of an extensive consultative process involving the government, employers' and workers' organizations, NGOs, social researchers, and academics. The plan began with a national seminar, which led to a National Task Force on Poverty Eradication. The plan aims to a) increase incomes of the poor (with a focus on roads, land, agriculture, rural markets, employment and labor productivity, access to credit, and micro and small scale enterprises) and b) improve the quality of life of the poor (targeting basic services, such as primary health and education, water, the environment and disaster management). The PEAP was published in June, 1997 by the Ministry of Planning and Economic Development. The budget process fully integrates the poverty strategy, and now involves planning for three-year periods.

As a part of this poverty strategy, the Government established a poverty action fund (PAF) to channel money released from HIPC relief to health and education. Donors can and do provide additional funds to the PAF over and above HIPC Initiative relief. The PAF was intended to act as a "fence" surrounding a number of priority projects that were already part of the budget, as identified by the PEAP. The HIPC Initiative and donor funding is thus additional to the government's own funding of these projects, often doubling the project's budget. The PAF is geared towards specified projects with verifiable outcomes. Tangible outputs such as classroom construction and completed feeder roads are used to increase transparency, with reports that are monitored through quarterly meetings with donors and civil society. In addition, a contingency fund, representing 5% of the total PAF funds is used for monitoring and accountability, through a variety of government agencies.

Annex 4: Status of Poverty Assessments and Poverty Reduction Action Plans in HIPCs

Country	Poverty Assessment (Yes-No)	Reference Number	Date of completion	Poverty Reduction Action Plan (Yes - No)	Poverty Incidence
Angola	No	-	-	-	-
Benin	Yes	12706-BEN	Aug. 94	Yes	15% [1/]
Burkina Faso	Yes	National doc.	Feb. 96	Yes	44%
Burundi	No	-	-	-	-
Cameroon	Yes	13167-CAM	Apr. 95	Yes	40%
CAR	Yes	10222-CA	Apr. 97	Yes	61% [2/]
Chad	Yes	16167-CD	Jun-97	Yes	77%
Congo	Yes	16043-COB	Jun-97	Yes	69%
Côte d'Ivoire	Yes	15640-IVC	May-97	Yes	36%
Ethiopia	Yes	11306-ET	Jun-93	Yes	52%
Equatorial Guinea	Yes	15553-EG	Mar. 96	Yes	NA
Ghana	Yes	14504-GH	Jun-95	Yes	31%
Guinea	Yes	16465-GUI	Mar. 97	Yes	56%
Guinea Bissau	Yes	13155-GUB	Jun-94	Yes	48%
Guyana	Yes	12861-GUA	May-94		43%
Kenya	Yes	13152-KE	Mar. 95	Yes	42%
Lao PDR	Yes	13992-LA	Aug-95		46%
Liberia	No	-	-	-	-
Madagascar	Yes	14044-MAG	Jun-96	Yes	70%
Malawi	Yes	15437-MAI	Mar. 96	Yes	40% [3/]
Mali	Yes	11842-MLI	Jun-93	Yes	55%
Mauritania	Yes	12182-MAU	Sept. 94	Yes	57%
Mozambique	Yes	National doc.	Dec. 98	Yes	69%
Nicaragua	Yes	14038-NI	Jun-95		50%
Niger	Yes	15344-NIR	Jun-96	Yes	63%
Rwanda	Yes	12465-RW	May-94	Yes	53%
Sao Tomé	No	-	-	-	-
Senegal	Yes	12517-SEN	May-95	No	53%
Sierra Leone	Yes	11371-SL	May-93	Yes	68%
Somalia	No	-	-	-	-
Sudan	No	-	-	-	-
Tanzania	Yes	14982-TA	May-96	Yes	51%
Togo	Yes	15526-TO	Jun-96	Yes	33%
Uganda	Yes	14313-UG	Jun-95	Yes	44%
Vietnam	Yes	13442_VN	Jan-95	Yes	58% [4/]
Yemen	Yes	15158-YEM	Jun-96		25%
Zambia	Yes	12985-ZA	Nov. 94	Yes	54%

Source: World Bank Poverty assessments.

[1/] This figure is based on the 1986-87 survey and may be underestimated, especially because the survey was carried out during an exceptionally good harvest year.

[2/] This estimate is actually taken from the World Bank African Development Indicators as the survey was still ongoing when the Poverty Assessment was drafted.

[3/] The relatively low poverty incidence is the result of increased distribution of food aid to the population, the poverty incidence increases to 69% in the absence such program.

[4/] This estimate is based on a moderate poverty line actually derived from known target population

Annex 5: Social Indicators in Heavily Indebted Poor Countries

Table 1: Selected Outcome Indicators of Health in HIPC Countries

Countries	Life Expectancy at Birth	% Malnutrition among children < 5	Mortality rate <5 per 1000	Maternal Mortality ratio (per 100,000)	Overall Index of Health Outcomes [1/]	
					World Standard [2/]	African HIPC Standard
Angola	47	35	208	1500	-1.20	-0.92
Benin	55	25	133	990	0.18	1.02
Bolivia	61	30	88	650	.01	1.89
Burkina Faso	46	33	171	930	-0.57	-0.09
Burundi	47	38	178	1300	-0.99	-0.63
Cameroon	56	26	115	550	0.59	1.59
C.A.R.	48	27	157	700	-0.07	0.60
Chad	48	40	174	1500	-1.14	-0.80
Congo, Dem. Rep.	53	40	139	870	-0.32	0.36
Congo, Rep.	52	24	263	890	-0.53	-0.02
Cote d'Ivoire	54	24	137	810	0.28	1.14
Equatorial Guinea	49	-	176	820	-	-
Ethiopia	49	55	184	1400	-1.56	-1.33
Ghana	59	26	101	740	0.64	1.70
Guinea	46	24	207	1600	-0.95	-0.62
Guinea-Bissau	44	24	203	910	-0.51	-0.07
Guyana	64	27	77	-	-	-
Honduras	69	39	49	220	1.82	2.80
Kenya	58	30	104	650	0.52	1.54
Lao, P.D.R.	53	47	150	650	-0.23	0.47
Liberia	47	-	-	560	-	-
Madagascar	59	40	117	490	0.28	1.25
Malawi	43	38	220	560	-0.85	-0.50
Mali	50	31	236	1200	-0.90	-0.51
Mauritania	53	45	149	930	-0.58	0.03
Mozambique	45	47	183	1500	-1.52	-1.34
Myanmar	60	45	115	580	0.25	1.12
Nicaragua	68	24	59	160	1.58	2.61
Niger	46	41	190	1200	-1.12	-0.81
Rwanda	40	40	202	1300	-1.44	-1.44
Sao Tome & Prin.	69	17	78	-	-	-
Senegal	51	22	115	1200	0.08	0.84
Sierra Leone	37	29	263	1800	-1.88	-1.99
Somalia	48	-	203	1600	-	-
Sudan	54	34	111	660	0.11	0.90
Tanzania	51	36	131	770	-0.16	0.55
Togo	51	30	129	640	0.14	0.93
Uganda	43	32	173	1200	-0.85	-0.50
Vietnam	68	47	55	160	1.04	2.16
Yemen, Rep.	56	40	113	1400	0.01	0.77
Zambia	45	36	146	940	-0.58	-0.09
Average HIPC [3/]	**52**	**34**	**148**	**909**	**-0.22**	**-**
Minimum	**37**	**17**	**49**	**160**	**-1.88**	**1.99**
Maximum	**69**	**47**	**263**	**1800**	**1.82**	**2.80**

Source: World Bank

[1/, 2/]: Aggregate of the four indicators in the table; the measure is in unit of standard deviation to the mean of either the sample of the 50 countries of the World for which per capita GNP is below 1200 US$, or the sample of the African HIPCs (a positive figure indicates that the country does better than the average country in the corresponding sample).

[3/] Simple unweighted average.

Table 2: Selected Outcome Indicators of Education in HIPC Countries

Countries	Adult Illiteracy Rate (%)	Primary Gross Enrolment Ratio (%)	School Life Expectancy (years)	Survival Rate to Grade 4 (%)	Overall Index of Education Outcomes [1/]	
					World Standard [2/]	African HIPC Standard
Angola	-	91	4.5	57	-	-
Benin	63	72	5.0	67	-0.86	-0.49
Bolivia	17	95	9.8	99	0.97	1.59
Burkina Faso	81	38	2.9	87	-1.41	-1.25
Burundi	65	70	4.8	99	-0.29	0.12
Cameroon	37	88	8.1	81	0.43	1.14
C.A.R.	40	71	5.2	65	-0.53	-0.70
Chad	52	55	4.2	52	-1.31	-1.01
Congo, Dem. Rep.	23	72	5.6	80	0.11	0.69
Congo, Rep.	25	114	8.8	60	0.59	1.40
Cote d'Ivoire	60	69	5.9	94	-0.17	0.32
Equatorial Guinea	22	-	-	-	-	-
Ethiopia	65	31	2.1	79	-1.52	-1.38
Ghana	36	76	7.1	92	0.40	1.06
Guinea	64	48	3.9	82	-1.00	-0.71
Guinea-Bissau	45	64	3.2	52	-1.22	-0.94
Guyana	2	94	9.5	-	-	-
Honduras	27	112	8.6	85	0.59	1.32
Kenya	22	85	8.5	88	0.82	1.63
Lao, P.D.R.	43	107	6.9	59	-0.41	-0.14
Liberia	62	-	-	-	-	-
Madagascar	30	72	4.8	45	-0.83	-0.39
Malawi	44	135	6.4	52	0.08	0.70
Mali	69	35	2.0	73	-1.72	-1.62
Mauritania	62	78	5.7	70	-0.62	-0.18
Mozambique	60	60	3.5	62	-1.26	-1.00
Myanmar	17	103	-	-	-	-
Nicaragua	34	110	9.1	68	0.34	1.21
Niger	86	29	2.3	85	-1.72	-1.64
Rwanda	40	77	6.0	78	-0.08	0.47
Sao Tome & Prin.	-	-	-	-	-	-
Senegal	67	65	4.9	88	-0.59	-0.20
Sierra Leone	69	51	4.8	-	-	-
Somalia	-	-	-	-	-	-
Sudan	54	54	4.6	94	-0.33	0.04
Tanzania	32	67	5.2	89	0.15	0.69
Togo	48	118	7.8	75	0.46	1.17
Uganda	38	73	5.6	63	-0.46	0.03
Vietnam	6	114	-	-	-	-
Yemen, Rep.	-	79	-	-	-	-
Zambia	22	89	7.3	89	0.74	1.38
Average HIPC [3/]	43	77	6.0	76	-0.27	-
Minimum	2	29	2.0	45	-1.72	-1.64
Maximum	86	135	9.8	99	0.97	1.59

Source: World Bank.

[1/ and 2/] : Aggregate of the four indicators in the table ; the measure is in unit of standard deviation to the mean of either the sample of the 50 countries of the World for which per capita GNP is below 1200 US$, or the sample of the African HIPC (a positive figure indicates that the country does better than the average country in the corresponding sample).
[3/] Simple unweighted average.

Table 3: Progress in Social Sectors of HIPC Countries, 1990-1997

	Infant Mortality Rate (deaths per 1000 live births)			Illiteracy Rate of 15-24 years-old (%)			Net Enrollment in Primary Education		
Countries	1990	1997	Progress [1/] (% change)	1990	1997	Progress [1/] (% change)	1990	1997	Progress [1/] (% change)
Angola	130	125	-4						
Benin	104	88	-16	60	51	1	49	63	3
Bolivia	81	66	-19	7	5	9			
Burkina Faso	105	99	-6	76	70	1	27	31	4
Burundi	119	113	0						
Cameroon	66	52	-21	14	9	5			
C.A.R.	102	98	-4	48	38	2			
Chad	118	100	-15				40	46	3
Congo, Dem. Rep.	96	92	-4						
Congo, Rep.	88	90	2	8	4	6			
Cote d'Ivoire	95	87	-8	50	40	2	47	55	3
Equatorial Guinea	121	108	-11	7	4	8			
Ethiopia	124	107	-14	58	49	1	30	28	3
Ghana	77	66	-15	20	13	3			
Guinea	136	120	-12				26	37	5
Guinea-Bissau	145	130	-10	58	49	1			
Guyana	64	58	-9				93	90	1
Honduras	50	36	-28	25	22	4	89	90	1
Kenya	62	74	20	10	6	6			
Lao, P.D.R.	108	98	-9				61	72	2
Liberia	168	116	-31	43	34	2			
Madagascar	103	94	-9				70	61	1
Malawi	135	133	-2	37	31	2	50	68	3
Mali	136	118	-13	56	42	1	18	28	8
Mauritania	105	92	-12	55	53	2			
Mozambique	150	135	-10	52	44	2	47	40	2
Myanmar	94	79	-16	12	10	7			
Nicaragua	55	43	-22	34	33	3	72	78	1
Niger	128	118	-8	83	79	1	24	25	4
Rwanda	132	124	-6	27	19	3	66	75	2
Sao Tome & Prin.	61	50	-18						
Senegal	74	70	-5	60	53	1	48	58	3
Sierra Leone	189	170	-10						
Somalia	152	122	-20						
Sudan	85	71	-17	35	26	2			
Tanzania	99	85	-14	17	11	4	51	48	2
Togo	92	86	-7	37	28	2	75	85	2
Uganda	104	99	-5	30	23	3			
Vietnam	44	29	-34	5	3	13			
Yemen, Rep.	110	96	-13	50	39	2			
Zambia	107	113	5	19	14	4	86	75	1
Average HIPC [3/]	**105**	**94**	**-11**	**36**	**30**	**3**	**53**	**58**	**3**
Minimum	**44**	**29**	**-34**	**5**	**3**	**1**	**18**	**25**	**1**
Maximum	**189**	**170**	**20**	**83**	**79**	**13**	**93**	**90**	**8**

Source: World Bank, World Development Indicators.

[1/] Progress defined as a percentage change between 1990 and 1997.
[2/] The closest available year was chosen if 1990 or 1997 data was not available.
[3/] Simple unweighted average.