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DEBT STRATEGY CAPACITY BUILDING NEEDS

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EXECUTIVE SUMMARY

This background paper for the joint Ministerial Debt Sustainability Forum organized by the Commonwealth Secretariat and the OIF, to be held on 23 April, recommends actions necessary to further build country capacity for debt strategy formulation and execution.

Its main overall conclusion is that there is a major need for additional "downstream" financing to support in-country capacity-building work, to complement the "upstream" assessment/diagnosis/capacity-building planning tool of the HIPC CBP, the diagnosis tool of the DeMPA and the planned diagnosis tools of the World Bank DMF. Many institutions already provide downstream debt management capacity-building support, including the Commonwealth Secretariat, the HIPC CBP implementing partners and UNCTAD, as well as the Bretton Woods Institutions. However, all are in need of further financing to accelerate debt strategy capacity-building, especially to maintain debt sustainability in the context of the global financial crisis. ***Ministers could strongly advocate the need for such "downstream" funding.***

The second key conclusion is that donor-funded assistance will achieve little without strong commitment by developing country governments to improve legal and institutional frameworks, and to use national capacity rather than external technical assistance. ***Ministers could commit to these two key prerequisites for successful capacity-building.***

More specifically, several actions are required to improve the assessment and response of the international community to country capacity-building needs:

1. Assessments of country needs should be as comprehensive and objective as possible, with clear scoring and evaluation systems. They should be conducted by the countries themselves, to maximize ownership, with quality control by regional and international organizations. They should be conducted regularly (preferably annually) in order to track progress and provide donors with a means of assessing success.
2. Assessments should be combined with the diagnosis of capacity gaps and potential solutions, and the construction of national capacity-building plans.

Ministers could urge donors and international and regional organizations to adopt these principles in executing all future capacity-building efforts.

In terms of the content and focus of capacity-building:

- in spite of major recent progress, the top need is to build capacity in "middle-office" analytical functions, notably on domestic debt market development and new external financing strategy.
- countries also need major capacity-building investments on macroeconomic forecasts, budget expenditure forecasting and risk management, all of which are essential aspects of debt strategy formulation and policy coordination (even if not necessarily performed by debt management offices on their own)
- Commonwealth countries in particular need technical training in portfolio and risk analysis, domestic
- debt strategy and external new financing strategy.

Ministers could urge donors to concentrate resources in these areas, and undertake to prioritise support to these areas in their national capacity-building plans.

- In relation to the BWI Initiatives on the LIC DSF and MTDS, the key training needs are on developing more accurate macro forecasts, improving domestic and private sector debt data, interpreting and understanding country-specific results, and using the results for designing policy recommendations. ***Ministers could urge the BWIs to invest more resources in supporting such training, building on successful in-country execution conducted by other regional and international organizations.***

For the successful implementation of a long-term capacity-building programme, it is vital that countries undertake the following actions:

- Passing laws which give debt management staff a clear mandate to produce annual debt strategies as part of the budget process, and ensuring they are formally approved by Cabinet/Parliament, disseminated to civil society and the international community, and consistently implemented.
- Updating laws to ensure that they cover all aspects of debt strategy (including domestic debt, contingent liabilities, decentralized debt, and more sophisticated instruments such as PPP agreements)
- Designing more comprehensive capacity-building plans which include measures to increase staff numbers and reduce staff turnover, such as more precise unit responsibilities, job descriptions, customized individual training programmes, and positively-oriented civil service strengthening programmes.
- Carefully selecting staff participating at training events, to fulfil the needs and career paths of each staff member.
- Making clear Government commitment to reducing dependency on external assistance, by refusing TA while implementing the capacity-building plan.

Ministers could commit to taking these actions to make capacity-building successful.

SECTION 1: BACKGROUND AND OBJECTIVES

1. The Government of Guyana, as Chair of the Commonwealth Ministerial Debt Sustainability Forum (CMDSF) through until its meeting of April 2009, has been keen to move forward with a series of actions based on authoritative analytical studies. It therefore commissioned Development Finance International (DFI), with funding from the United Kingdom's Department for International Development DFID), to prepare a series of "action papers", for discussion at the Commonwealth Ministerial Debt Sustainability Forum meeting on April 22, 2009 in Washington DC.

2. The aim of this study, prepared by DFI, is to present the debt strategy-related capacity-building needs of 32 of the 36 countries which participate in the HIPC Debt Strategy and Analysis Capacity-Building Programme (HIPC CBP). The CBP has been implemented by five partner institutions – the BCEAO/BEAC Pôle Régional de Formation en Gestion de la Dette; the Centro de Estudios Monetarios Latino-Americanos (CEMLA); Debt Relief International (DRI); the Macro-Economic and Financial Management Institute of Eastern and Southern Africa (MEFMI); and the West African Institute for Financial and Economic Management (WAIFEM). It has been funded by the Governments of Austria, Canada, Denmark, Ireland, Sweden, Switzerland and the UK.

3. The remainder of this report is organised as follows. Section 2 analyzes the two main current capacity building assessment methodologies: the one developed by the HIPC-CBP in 1998, and the one developed in 2007 by the World Bank. Section 3 provides the latest capacity building needs emerging from the most recent self-assessment exercise by CBP countries. The study also looks at the capacity building needs disaggregated into membership groups of two international organisations (Commonwealth members and OIF members), and then proceeds to a more detailed analysis of the Commonwealth countries.

4. The last section of the report seeks to share the capacity building activities planned for the Commonwealth countries based on the analysis provided in the previous section. These recommendations include specific technical areas that need to be targeted as well as legal and institutional arrangements that need to be reinforced. They are presented in the form of a matrix. Finally, this section also includes some general recommendations for recipient countries to successfully implement capacity building programs

SECTION 2: CAPACITY BUILDING ASSESSMENT METHODOLOGIES

5. One of the most important characteristic of a sound capacity building assessment methodology is that the countries themselves lead the process for evaluating their own capacity, in order to maximise their ownership of the process. If this is not achieved, lack of country ownership can lead to resources and interventions being directed towards sectors and interventions that are not priorities for the Government. These therefore ended up being misused, or not achieving any sustainable improvement in government capacity. It is therefore essential that countries assess their own management capacities and design their own capacity building plans.

6. This section will provide a brief description of the two most important capacity building assessment methodologies in debt management, developed by the HIPC-CBP in 1998, and by the World Bank in 2007.

2.1 a) CBP Self-Assessment Methodology

7. The HIPC CBP debt strategy and analysis capacity assessment methodology was developed in 1998 in consultation with HIPCs. It was transformed into a self-assessment methodology in 2001, at the request of the participating countries, and was enhanced at the end of 2005 in order to incorporate new technical areas relevant to an increasing number of post-HIPC countries such as domestic debt and new financing strategies. It follows a three step approach to capacity building: self-assessment, evaluation of gaps and solutions, and design of capacity building plans. Additionally the HIPC CBP methodology has incorporated the use of a results-based management (RBM) approach, requiring the self-assessment to be linked closely to RBM logical framework targets for each country, to monitor progress in country capacity development. It is on the basis of major progress that donors have provided funding.

8. The main principle of this methodology is to allow each country to compare its existing technical and institutional capacity to international best practices, thereby allowing each country to give itself a score in each area. The methodology is comprehensive to cover all aspects of debt strategy. This includes capacity to obtain relief on external and domestic debt, and high-quality new external and domestic financing, macroeconomic forecasting capacity and capacity to analyse the anti-poverty spending needs to which debt relief and new financing should be devoted. It also looks beyond technical capacity, to political commitment, dialogue with/transparency to other national and international stakeholders, and the institutional framework in which debt management takes place.

9. The self assessment questionnaire completed by participating countries is divided into two sections:

<u>Section 1</u> is used as an RBM tool to measure progress in improving capacity. It allows countries to score themselves according to whether they have achieved sustainable debt levels, using the most appropriate debt sustainability indicators for external and domestic debt (HIPC, DSF or national/regional indicators). Evidently this outcome is influenced by many factors, including global debt relief initiatives and external and domestic new financing trends and availability, as well as the level of debt management achieved in a country.

To assess how debt sustainability has been achieved and can be maintained, countries analyse whether they have four aspects of debt management capacity:

- a debt strategy and sustainability analysis which has been updated annually
- high-quality legal and institutional frameworks for debt management and new borrowing;
- personnel capable of formulating and executing national debt strategies, and
- high quality capacity-building plans which are updated annually and implemented.

Section 2 allows countries to assess their technical and institutional capacity in the following 5 parts:

- External debt, including back-office capacity in debt recording; middle-office capacity for renegotiation of existing debt; and front-office capacity for servicing current maturities.[1]
- New external financing, including back-office capacity to monitor grant flows; middle-office capacity for contracting the most effective financing; and front-office capacity to achieve maximum efficiency in disbursements of funds
- Domestic debt, including back-office capacity to record domestic debt; middle-office capacity to design a domestic debt strategy (including a strategy to develop domestic debt markets); and front-office capacity to issue appropriate instruments, maintain good relations with the market, and service domestic debt.
- Technical areas which are related to and essential for debt strategy analysis, including capacity to produce accurate and comprehensive macroeconomic scenarios, forecast and cost national poverty reduction strategies, and conduct portfolio reviews and risk analysis. Only the last of these is usually the job of a debt office, but the others are essential to policy coordination.
- The quality of capacity building plans at the level of the overall government, each agency and unit involved in debt management, and for each individual staff member. These go beyond training to cover all aspects of institution-building and political commitment.

10. Countries assess their capacity independent of external technical assistance (ie each output needs to be produced without assistance). Because all countries compare themselves to the same international best practices, the evaluation can be used to produce systematic cross-country comparison over time. Once countries have assessed their own technical and institutional capacity building needs and indicated gaps and potential solutions, the CBP Implementing Partner Institutions then use the methodology to design the most appropriate capacity building plan for a particular country, as well as to assess progress in implementing previous plans and to update plans annually in consultation with the country authorities. The resulting assessment can also be used by other organizations doing capacity building work, to prioritise their activities.

11. The methodology has faced 2 main difficulties in its implementation:

1) The methodology requires an assessment of multiple institutions, departments and units, which debt management units were not equipped to provide. This problem was solved by recommending that a country team be responsible for completing the evaluation, through a technical working group or debt strategy committee, which includes senior officials from all relevant institutions and departments. Where such structures were not operational, countries organized a meeting of senior officials to complete the evaluation, with the head(s) of the main debt management unit(s) chairing the meeting and taking responsibility for compiling and forwarding the results.
2) The accuracy of the responses. There was of course the risk that countries would either overestimate (to show they were making progress) or underestimate (to request larger donor funding) their capacity. As a result, the implementing partner organizations have implemented rigorous quality control of country evaluations. This quality control and the

[1] Servicing capacity also assesses cash/treasury management capacity, which does not have a separate criterion.

self-assessment results have been validated by several independent reviews of the program, allowing donors to have a high degree of confidence in the CBP's assessments of progress.

b) Debt Management Performance Assessment (DeMPA)

12. The capacity building assessment methodology developed by the World Bank uses 15 performance indicators to assess public debt management performance. These indicators span the full range of government debt management functions and are based on the principles set out in the IMF and World Bank Guidelines for Public Debt Management (Guidelines) of 2001 and later updated in 2003. The methodology was based on one developed for the Public Expenditure and Financial Accountability (PEFA) initiative to measure the performance of the public financial management system.

13. The DeMPA was designed to assess the strengths and weaknesses in government debt management practices, and to be carried out where necessary by a non-specialist in debt management.[2] It focuses only on central government debt and covers all the central government debt management functions comprehensively, as well as related activities such as issuance of loan guarantees, on-lending, and cash-flow forecasting and cash balance management. Furthermore, the methodology was designed with the necessary flexibility so that, if necessary, it could be applied to sub national governments.

14. The DeMPA performance indicators aim to measure the complete spectrum of government debt management, as well as the overall environment in which these operations are conducted, and to capture the elements recognized as being indispensable to achieving sound debt management practices. The indicators are the following: 1) Legal Framework; 2) Managerial Structure; 3) Debt Management Strategy; 4) Debt Management Operations; 5) Auditing; 6) Coordination with Fiscal Policy; 7) Coordination with Monetary Policy; 8) Domestic Borrowing; 9) External Borrowing; 10) Loan Guarantees, On-Lending and Derivatives; 11) Cash Flow Forecasting and Cash Balance Management; 12) Debt Administration and Data Security; 13) Segregation of Duties, Staff Capacity, and Business Continuity; 14) Debt Records; and 15) Debt Reporting

15. The assessment is carried out by a mission visiting the country (led by the World Bank, sometimes with participation of other capacity-building institutions) and discussed with the country's authorities. It is therefore not a self-assessment. In addition, it focuses on identifying how close a country is to international norms in terms of debt management structures, processes and results. It does not specify gaps in capacity or solutions to those gaps, or make recommendations on reforms or technical and institutional capacity building needs. Instead, each of the performance indicators shows a minimum level that should be met, and if the assessment shows that the minimum requirements are not met, the particular technical area requires reform or capacity building or both. Based on this assessment a debt management reform plan would be designed in a separate mission, to be implemented by a technical assistance provider.

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[2] Though in practice the assessments have generally been done by debt specialists.

c) *The DMFAS Assessment Methodology*

16. The **Debt Management and Financial Analysis System (DMFAS)** program at the United Nations Conference on Trade and Development (UNCTAD) uses various types of interactions with client countries to assess their capacity building needs. The first is the biennial Inter-regional Conference on Debt Management. All UNCTAD member countries are invited to this meeting, which gives debt managers a forum to discuss current debt management issues and share country experiences, as well as allowing DMFAS staff an opportunity to review with their clients their technical and institutional needs. The second is the annual DMFAS Advisory Group meeting where representatives from countries receiving DMFAS assistance discuss with UNCTAD Management their capacity building needs. Individual country missions also provide valuable information regarding each country's capacity building needs, which are translated into specialized products and services.

SECTION 3: HIPC CBP ASSESSMENT RESULTS

17. This section analyses the latest country capacity building needs emerging from the most recent HIPC-CBP self evaluation exercise carried out at end-2008.

18. The results shown below will be presented in three different groupings. The first grouping shows shows results by international organization, divided into members of the Commonwealth, the OIF and other countries. The second grouping shows capacity needs by Regional Organization (BEAC/BCEAO Pole Dette, CEMLA, MEFMI, WAIFEM and non-RO member countries).[3] The last grouping focusses more closely on the 11 Commonwealth Secretariat member countries which participate in the HIPC CBP. [4] In all the assessments, scores shown range from 1 (worst) to 5 (best).

3.1 By International Organization Membership Group

19. Table 1 below shows scores organized by International Organization membership – Commonwealth, OIF, and other countries. Performance indicator 1 – measuring long term sustainability of public debt, shows that Commonwealth countries have sustainable debt (largely due to their post-HIPC status), whereas OIF countries show lower scores due to a high number of pre-HIPC countries.

20. In terms of performance Indicator 2a – measuring the country's capacity to design, approve and implement its own national debt strategy – there is little difference across the groupings. However, in relation to indicator 2b measuring the institutional and regulatory framework, Commonwealth countries show a more solid institutional set up, though many still need an overall legal framework to regulate external and domestic borrowing.

[3] See annex 1 for a complete list of the member countries of each regional organization

[4] These countries are: Cameroon, Gambia, Ghana, Guyana, Kenya, Malawi, Mozambique, Sierra Leone, Tanzania, Uganda, and Zambia.

21. Performance indicator 3a measures the number of trained technical staff for designing a sound debt strategy. Commonwealth countries show the highest scores, with virtually 2 staff trained in each area.

22. Performance indicator 3c measures National Capacity Building Plans. Commonwealth countries scored again the highest, but there is still a need to reinforce all countries' capacity to design their own comprehensive plans.

Table 1: Performance Indicators by International Organization Membership Group

	Performance indicator 1	Performance indicator 2a	Performance indicator 2b	Performance Indicator 3a	Performance Indicator 3c
Commonwealth Countries	4,64	3,45	3,44	3,91	3,05
OIF Countries	3,13	3,21	3,19	3,47	2,91
Others	3,83	3,90	3,15	3,58	2,73

Table 2: Summary of Technical Areas by IO Membership Group

	Commonwealth Countries	OIF Countries	Other
Part 1 - External debt	3,83	3,09	3,48
I. Recording	3,96	3,60	3,47
II. Renegotiation	3,60	2,42	3,51
III. Servicing	3,91	3,24	3,46
Part 2 – New Financing	3,56	3,10	2,84
I. Recording	3,62	3,16	2,79
II. New Financing Policy	3,28	2,91	2,87
III. Disbursement	3,72	3,23	2,86
Part 3 – Domestic Debt	3,43	2,78	2,92
I. Recording	3,54	3,06	3,01
II. Domestic Debt Strategy	3,05	2,73	2,67
III. Dom. Debt Issuance/Serv.	3,71	2,54	3,09
Part 4 – Technical Areas	3,27	2,68	2,66
I. Macroeconomic Projections	3,41	3,07	2,97
II. Poverty Reduction	3,56	2,84	2,81
III. Portfolio and Risk Analysis	2,83	2,13	2,20

Part 5 – Capacity Building Plans	3,54	3,15	2,96
I. Individual Level	3,21	3,00	2,74
II. Unit Level	3,58	3,32	3,27
III. Agency Level	3,80	3,20	3,17
IV. Government Level	3,58	3,07	2,67

23. Table 2 above shows the different scores submitted by countries for the 5 technical areas of the questionnaire. Commonwealth countries show consistently higher scores in all areas, but also show particular need for capacity building in portfolio and risk analysis. Middle office functions are also in need for reinforcement as they scored the lowest in each of the debt related technical areas. Another area in urgent need of reinforcement is in the design of a domestic debt strategy which scored the second lowest. These two areas are also the lowest scores for the OIF and Other countries.

3.2 By Regional Organization

24. Table 3 summarises performance indicators by regional organization.

- Indicator 1 measures the sustainability of public debt (external and domestic)**.** MEFMI and WAIFEM member states show the highest scores due to the preponderance of post-HIPC/MDRI countries. The non-RO countries have the lowest scores as these countries are less advanced in the HIPC process.
- Indicator 2a measures capacity to design, approve and implement a national debt and new financing strategy. Scores are lower in the approval/implementation aspects of this indicator, so the challenge for the CBP is to assist Governments to approve and implement their strategies.
- Indicator 2b measures legal and institutional frameworks. Responses across regions show that the area that needs special attention is "ensuring legislation includes clear parameters for contracting new financing".
- Indicator 3a measures the availability of trained personnel. Scores show that there are on average only 1-2 trained staff members in each technical area used to design a debt and new financing strategy. This shows the need to train more team members, to overcome the risk of staff rotation – and to ensure that training is focused on members of national teams.
- The weakest overall area is indicator 3c which measures whether Governments have designed their own capacity-building plans. This is largely because the CBP has only recently focused on designing these, so in many cases they do not reach the individual (as opposed to unit and agency) level.

Table 3: Performance indicators by Regional Organization

	Performance indicator 1	Performance indicator 2a	Performance indicator 2b	Performance Indicator 3a	Performance Indicator 3c
Pole Dette	3,60	3,09	3,29	3,46	2,91
CEMLA	3,25	3,75	2,98	3,38	2,25
MEFMI	4,88	3,45	3,28	3,88	3,03
WAIFEM	4,33	3,67	3,60	3,33	3,07
Non-RO	3,00	3,68	2,96	3,80	2,88
CBP	3,84	3,40	3,23	3,59	2,87

25. Table 4 below shows the summary scores by technical area by region:

- External Debt received the highest score of the five technical areas, partly because it has benefited from CBP support since the beginning of the program. The sub-area dealing with recording had higher scores than renegotiations or servicing, but post-HIPC countries scored highest in the servicing category, reflecting the budgetary impact of debt relief.
- New External Financing is still scoring lower ratings than external debt showing that there is a key need for support in mobilizing top quality new financing to avoid renewed debt un-sustainability. Recording grants received the highest average scores, followed by disbursement and last the new financing policy.
- Domestic Debt had lower scores. Recording of domestic debt data is much worse than external debt, reflecting countries' previous focus on external debt data bases. Moreover, domestic debt strategy lags behind, reflecting a strong need for assistance using the new CBP methodology introduced in 2006.

Table 4: Summary of Technical Areas, by Regional Organization

	Pole Dette	CEMLA	MEFMI	WAIFEM	Non-RO	Average
Part 1 - External debt	3.18	4.23	3.83	3.59	3.28	3.62
Recording	3.63	4.35	3.89	3.80	3.48	3.83
Renegotiation	2.64	3.95	3.69	3.27	3.16	3.34
Servicing	3.26	4.40	3.91	3.70	3.20	3.69
Part 2 – New Financing	3.15	3.37	3.51	3.67	2.65	3.27
Recording	3.22	3.33	3.63	3.70	2.24	3.22
New Financing Policy	3.00	3.23	3.24	3.40	2.92	3.16
Disbursement	3.18	3.55	3.66	3.90	2.80	3.42
Part 3 – Domestic Debt	2.83	3.58	3.74	3.33	2.47	3.19
Recording	3.08	3.73	3.57	3.43	2.65	3.29
Domestic Debt Strategy	2.83	3.08	3.14	3.10	2.30	2.89
Dom. Debt Issuance/Serv.	2.57	3.95	3.97	3.47	2.45	3.28

Part 4 – Technical Areas	2.78	3.03	3.18	3.21	2.84	3.01
Macroeconomic Projections	3.12	3.50	3.29	3.57	3.04	3.30
Poverty Reduction	2.95	3.05	3.34	3.93	3.16	3.29
Portfolio and Risk Analysis	2.28	2.55	2.91	2.13	2.32	2.44
Part 5 – Capacity Building Plans	3.14	3.66	3.59	3.36	3.17	3.38
Individual Level	2.92	3.30	3.06	3.37	3.16	3.16
Unit Level	3.34	3.98	3.60	3.33	3.32	3.51
Agency Level	3.28	4.00	3.89	3.53	3.16	3.57
Government Level	3.03	3.38	3.80	3.20	3.04	3.29
AVERAGE	**3.02**	**3.58**	**3.57**	**3.43**	**2.78**	**3.27**

- The self-assessment scores show that for the three debt related areas (external debt, new financing and domestic debt), the back office function – recording – showed the highest scores, followed by front office functions – servicing, disbursement, and domestic debt servicing and issuance. The middle office functions – renegotiation, new financing policy and domestic debt strategy – have seen a dramatic improvement during the last 10 years, but still rank the lowest and therefore require the most reinforcement.
- Related Technical Areas - macroeconomic forecasting, poverty reduction forecasting and risk management. The CBP does not have the mandate to conduct training in these areas, but they are where countries need the most assistance, implying that more efforts are needed in other programmes run by regional implementing partners, and other international organizations.
- The last technical area deals with capacity building environments. The highest scores were at the unit and agency level, due to adequate working environment, work planning and monitoring and information flows between agencies. Scores were slightly lower at the individual level (job descriptions, staff numbers and qualifications) and the Government level (interactions and discussions with parliaments and civil society about strategies).

3.3 By Individual Commonwealth Country

26. Table 5 below shows scores of Commonwealth member countries.

- For Performance Indicator 1, all countries except The Gambia and Guyana show sustainable public debt indicators.
- For performance indicator 2a, Zambia and Kenya showed low capacity to design, approve and implement a national debt strategy, In Zambia, this reflected low ability to get a strategy approved, and to implement and update the strategy. This reflects lack of institutional coordination, and absence of laws and regulations which would require Government to discuss and approve a strategy. Kenya reported a need for training in all aspects of the design of a debt strategy including the use of a simulating tool, technical capacity to design it, as well as approval, implementation and updating. Malawi, Tanzania and Uganda have already developed the technical capacity and the institutional arrangements to carry out the different tasks involved in designing, approving, implementing and updating strategies.
- Malawi, Tanzania and Uganda also have the highest scores in Institutional and Legal Frameworks (indicator 2b), where Guyana and Kenya show the lowest scores reflecting a

need to improve the comprehensiveness and the quality of existing laws regulating debt contracting, guarantees, and servicing.

- Guyana, Kenya and The Gambia further showed a need to increase the availability of trained staff (indicator 3a) to produce a sound debt strategy.
- Performance indicator 3c shows the existence of National Capacity Building Plans that are being implemented and updated regularly. Again, Guyana, Kenya and Malawi, along with Uganda showed the lowest scores.

Table 5: Performance Indicators by Commonwealth Country

	Performance indicator 1	**Performance indicator 2a**	**Performance indicator 2b**	**Performance Indicator 3a**	**Performance Indicator 3c**
Cameroon	5,00	3,40	3,60	5,00	3,80
Gambia	3,00	3,40	3,40	2,00	2,60
Ghana	5,00	3,90	3,80	4,00	3,20
Guyana	4,00	3,00	2,20	3,00	1,00
Kenya	5,00	1,00	2,20	3,00	1,60
Malawi	5,00	4,20	4,20	4,00	4,00
Mozambique	5,00	3,60	3,40	4,00	2,80
Sierra Leone	5,00	3,70	3,60	4,00	3,40
Tanzania	5,00	4,60	4,40	4,00	4,00
Uganda	5,00	4,60	3,60	5,00	2,20
Zambia	5,00	2,60	3,40	5,00	5,00
Average	4,64	3,45	3,44	3,91	3,05

27. Table 6 below shows the scores submitted by Commonwealth countries in the different technical areas. Recording scores are the highest across the board. External debt has received the highest scores except in The Gambia which shows a need for further training in renegotiations. New financing issues scores are generally low, indicating that countries still need further reinforcement in this area. In the case of domestic debt, there are a few countries requiring reinforcement of their capacities such as Cameroon, Guyana, and Sierra Leone more specifically in the design of a domestic debt strategy.

28. In terms of the technical areas, it will be very important for Commonwealth member countries (especially Guyana and Mozambique) to increase capacity to make macroeconomic projections, as this will be essential to input the appropriate information into the LIC-DSF. They will also need further to develop analytical capacity in order to assess their own debt sustainability using the LIC-DSF and to develop inputs for Medium Term Debt Strategies. Countries have reported some low scores for capacity building plans at all levels. More specifically, The Gambia needs to increase its interactions with the international community, civil society and parliament in regard to its debt strategy.

29. These capacity building needs reported by the different Governments should be fed into the different provider's training program depending on their mandates and financial resources.

Further down, in section 4, the study shows how the CBP has taken some of the countries' capacity building needs into its program for the remainder of Phase IV of the program.[5]

Table 6: Summary of Technical Areas by Commonwealth Country

	Cameroon	Guyana	Kenya	Malawi	Mozambique	Tanzania	Uganda	Zambia	Gambia	Ghana	Sierra Leone
Part 1 - External debt	3,67	4,00	3,13	4,33	3,87	4,12	4,13	3,93	3,00	4,13	3,77
I. Recording	3,80	3,80	3,80	4,60	3,60	3,80	4,00	4,40	3,40	4,40	4,00
II. Renegotiation	3,80	3,80	2,60	4,40	4,00	3,80	3,80	3,60	2,40	4,00	3,40
III. Servicing	3,40	4,40	3,00	4,00	4,00	4,75	4,60	3,80	3,20	4,00	3,90
Part 2 – New Financing	3,80	2,93	3,07	3,63	3,60	3,93	3,40	3,67	3,13	4,27	3,70
I. Recording	4,00	2,80	2,40	4,20	4,00	3,40	3,80	4,00	3,20	4,50	3,50
II. New Financing Policy	3,40	2,60	3,00	3,10	3,40	3,80	3,00	3,40	2,80	4,00	3,60
III. Disbursement	3,40	3,40	3,80	3,60	3,40	4,60	3,40	3,60	3,40	4,30	4,00
Part 3 – Domestic Debt	2,93	3,07	3,53	3,47	3,87	4,07	3,73	3,00	3,67	3,43	2,97
I. Recording	3,40	3,20	3,80	4,00	3,40	3,60	3,80	3,40	3,80	3,50	3,00
II. Domestic Debt Strategy	3,00	2,40	2,40	3,20	3,40	4,20	3,60	2,00	3,40	3,10	2,80
III. Dom. Debt Issuance/Serv.	2,40	3,60	4,40	3,20	4,80	4,40	3,80	3,60	3,80	3,70	3,10
Part 4 – Technical Areas	3,87	2,60	2,87	3,98	3,27	3,20	3,13	3,07	3,00	3,77	3,20
I. Macroeconomic Projections	4,00	2,40	3,60	4,00	2,40	3,80	3,60	3,00	3,80	3,90	3,00
II. Poverty Reduction	3,80	2,80	4,00	4,20	3,40	2,60	3,40	3,20	3,60	4,20	4,00
III. Portfolio and Risk Analysis	3,80	2,60	1,00	3,75	4,00	3,20	2,40	3,00	1,60	3,20	2,60
Part 5 – Capacity Building Plans	3,65	3,45	3,40	3,60	3,60	3,95	3,35	3,70	2,75	3,90	3,63
I. Individual Level	3,20	3,20	3,20	3,20	2,60	3,40	3,20	2,80	3,00	3,80	3,70
II. Unit Level	4,00	3,80	3,60	3,60	3,60	3,80	3,40	3,40	3,00	3,80	3,40
III. Agency Level	4,00	3,80	4,00	3,80	3,40	4,00	3,40	4,80	2,80	4,00	3,80
IV. Government Level	3,40	3,00	2,80	3,80	4,80	4,60	3,40	3,80	2,20	4,00	3,60

SECTION 4: CURRENT CAPACITY BUILDING NEEDS

30. This section attempts to assess recent capacity building efforts and the remaining needs of countries, divided into two parts. The first relates to overall debt strategy capacity-building needs, and the second to needs related to the Bretton Woods institutions Initiatives such as the DSF and MTDS (based on the conclusions of CBP regional and national workshops).

[5] Findings of the World Bank DeMPA assessments were originally to be included in this paper. However, it has since been decided that the World Bank will present these separately to the meeting.

4.1. HIPC CBP Capacity-Building Needs

31. Following the analysis of the self evaluation scores provided by the different countries, some of their training needs have already been incorporated into the CBP work program. The matrix below shows the different types of capacity building needs of Commonwealth countries and the type of activities that will be used by the CBP to target those specific areas in which the CBP has a mandate.

Commonwealth Country	**Capacity building activities**
Cameroon	The current priorities for reinforcing Cameroon's capacity are: a) training members of the Debt Committee on the design of global debt strategies combining the CBP methodology with that of the DSF. This will be done through a further national debt strategy workshop; b) training staff on treasury management and domestic debt strategies, to prevent future domestic debt crises.
Gambia	The current priorities for reinforcing Gambian capacity are: a) updating its national debt strategy using LIC DSF with particular emphasis on new financing and domestic debt strategies. b) continued training in all technical areas including basic debt management; c) redrafting of the Loans Act, new borrowing guidelines and drawing up of national capacity building plans.
Guyana	The current priorities for reinforcing Guyana's capacity are: a) updating the strategy, and getting it approved and implemented b) increasing the number of national experts available, and c) finalizing a capacity-building plan. d) holding sensitization seminars to facilitate the exchange of ideas and coordination between the different agencies to design, approve and implement its national new financing strategy.
Ghana	The current priorities for reinforcing Ghana's capacity are: a) training staff in designing the national debt strategy with particular emphasis on new financing and domestic debt strategies, b) Training staff in risk modeling for the sovereign debt portfolio, c) training more staff on DEMPA, DSF LIC and MTDS; and d) legal aspects of debt management.
Kenya	The current priorities are: a) Training more staff in the design of the national debt strategy, making sure it is approved, and fully implemented as well as updated regularly. This will be done through a national debt strategy workshop and a sensitization seminar, as well as a

	follow-up mission to support strategy implementation. b) Improving the legal and institutional framework for debt and new financing management, and linking the overall national capacity-building plan to individual training needs.
Malawi	The current priorities for further reinforcing Malawi's capacity are: a) for the Government to respond positively to the Paris Declaration and to review the country's debt and aid policy documents. b) Enhancing national capacity to use and train officials in the BWI's LIC-DSF, by participating in the regional training for trainers workshop
Mozambique	The current priorities for reinforcing Mozambique's capacity are: a) Training more staff in the design of a national debt strategy focusing on domestic debt and private debt. This will be done through further national debt strategy workshops and sensitization seminars, b) ensuring the debt strategy is approved and fully implemented as well as updated regularly.
Sierra Leone	The priorities for Sierra Leone are: a) to consolidate its pool of national experts on DSA. b) To update its national debt strategy regularly with particular emphasis on risk analysis and domestic debt strategies. c) To review its institutional and especially legal framework.
Tanzania	The current priorities for reinforcing Tanzania's capacity are: a) Increasing the availability of trained technical staff, to formulate new financing and domestic debt strategy and assisting Government officials to implement the approved strategy. This will be done through a national debt strategy workshop and approval seminar, and a follow-up mission. b) Linking the overall national capacity-building plan to individual training needs. This will take place through one institutional support mission to improve the institutional framework.
Uganda	The current priorities for reinforcing Ugandan's capacity are: a) Assuring full implementation of the strategy and updating the strategy taking into account new financing issues and aid effectiveness, and b) improving the institutional framework for debt and new financing management, and linking the overall national capacity-building plan to individual training needs.
Zambia	The current priorities for reinforcing Zambia's capacity are: a) Increase the availability of trained staff to design and

	implement strategies; b) assist Government officials to implement the adopted strategy as well as updating it regularly. c) improve the legal and institutional framework for debt management, and d) link the overall national capacity-building plan to individual training needs.

4.2. Needs Related to the BWI Initiatives

32. Since the Bretton Woods Institutions launched their debt sustainability assessment tools, the HIPC-CBP has had to respond to different requests by its member countries to build their technical capacity, in order for Governments not just to understand the use of these tools, but also to engage in productive discussions with the World Bank and IMF on the results of the analyses and their policy implications. This response has been coordinated with the Bretton Woods Institution in order to facilitate the process of feeding back to the developers of these tools the countries' existing debt strategy and needs. Each intervention has been complemented by feedback from countries showing the areas in which they considered they needed further training, which is detailed below.

33. Still in 2007, Pole Dette and CEMLA organized two separate joint workshops with the World Bank on the Debt Sustainability Framework (DSF). The purpose of the workshops was to assist technical staff from member countries to understand the theoretical foundations and political aspects of the new framework. Participating countries reported back indicating that they found necessary further technical training in using the tools, especially on developing the different macroeconomic variables used in the spreadsheets. Additionally they suggested further training at national level so that more tailored country case analysis can be undertaken.

34. MEFMI also organized regional and national workshops to build technical capacity on the new Bretton Woods institutions' tools. These activities produced a set of recommendations from governments on how to improve countries' capacity to master these tools, which included further training on:

- capturing and monitoring private debt,
- (pending the design of an automatic link between the CS-DRMS and DMFAS debt recording systems and the DSF) designing the appropriate output tables from the debt recording system to feed into the templates
- producing consistent macroeconomic projections
- interpreting and understanding country-specific results
- using the results for designing policy recommendations

35. There is also a need for further training in these areas:

- macroeconomic forecasts. There is further need to develop skills of staff in macroeconomic forecasting.
- debt databases. DSF usage will require the regular maintenance and validation of databases, training in how to download debt data to the DSF, and construction of automatic links between CS-DRMS/DMFAS and the DSF.

- financing strategies. There is further need to train staff in the knowledge and skills to run these tools as well as the DSF template.

36. During the first quarter of 2007, WAIFEM joined the World Bank in a mission to Ghana on one of the first pilot missions to help countries reinforce their national debt strategies using the Medium Term Debt Strategy toolkit. The experience highlighted the need for countries to improve coordination between debt managers and fiscal, monetary and reserve managers in order to reconcile objectives and constraints. The government reported further need in capacity building on analyzing the different costs and risks of the existing debt as well as cost-risks trade-offs for alternative debt management strategies was recommended.

SECTION 5: FUTURE ACTIONS AND RECOMMENDATIONS

Several actions are required to improve the assessment and response of the international community to country capacity-building needs:

- Assessments of country needs should be as comprehensive and objective as possible, with clear scoring and evaluation systems.
- Assessments should be conducted by the countries themselves, to maximize ownership, with quality control by regional and international organizations.
- Countries should combine assessments with diagnosis of capacity gaps and potential solutions, and the construction of national capacity-building plans.
- Assessments should be conducted regularly (preferably annually) in order to track progress and provide donors with a means of assessing success.
- In spite of major recent progress, the top need is to build capacity in "middle-office" functions, notably domestic debt and new external financing strategy.
- Countries need major capacity-building on macroeconomic forecasts, poverty reduction forecasting and risk management.
- For the success of long-term capacity-building, Governments need to make job descriptions more precise, improve staff numbers and qualifications, and increase interactions with parliaments and civil society on strategies.
- Commonwealth countries in particular need updating of their legal frameworks, the design of more comprehensive capacity-building plans, and technical training in portfolio and risk analysis and domestic debt strategy.
- Commonwealth member country needs vary somewhat, but there is a strong need to reinforce strategy approval and implementation, as well as to update legal and institutional frameworks and improve capacity-building plans.
- In relation to the BWI Initiatives on the LIC DSF and MTDS, the key training needs are on developing more accurate macro forecasts, improving domestic and private sector debt data, interpreting and understanding country-specific results, and using the results for designing policy recommendations.

Finally, to implement a successful capacity building program, it is vital that countries do their part in implementing a capacity building plan. Some of the actions that Government can undertake include:

- Passing laws which give debt management staff a clear mandate to produce annual debt strategies with the budget, and ensuring they are implemented.

- Reducing staff rotation and turn over. This will allow Governments to focus on developing deeper technical capacity across the board, and reduce the risk of not having appropriate staff to carry out the required technical tasks.
- Carefully selecting staff participating at training events. Participation at training events should complement the training needs of the appropriate staff and should not be viewed as a reward.
- Having training paths for staff and clear responsibilities for the different units and departments. This setup will facilitate Human Resources manager's decisions when selecting participants.
- Making clear Government commitment to reducing dependency on external assistance, by refusing TA while implementing the capacity-building plan.

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ANNEXES

LIST OF COUNTRIES ANALYSED BY REGIONAL ORGANIZATION

REGIONAL ORGANIZATION	MEMBER COUNTRIES
BCEAO/BEAC POLE-DETTE	BENIN, BURKINA FASO, CAMEROON, CONGO REP., CHAD, COMOROS, COTE D'IVOIRE, GUINEA BISSAU, MALI, NIGER, RCA, SENEGAL, TOGO.
CEMLA	BOLIVIA, HONDURAS, GUYANA, NICARAGUA
MEFMI	KENYA, MALAWI, MOZAMBIQUE, RWANDA, TANZANIA, UGANDA, ZAMBIA
WAIFEM	GAMBIA, GHANA, SIERRA LEONE
NON-MEMBERS OF A REGIONAL ORGANISATION[6]	BURUNDI, ETHIOPIA, GUINEA, MAURITANIA, SAO TOME AND PRINCIPE.

[6] Burundi and Guinea have recently decided to join Pôle-Dette.