Tightening the chains or cutting the strings?

The status of HIPC conditionality in 2006

A report by Jubilee Debt Campaign,
based on research and analysis by Angela Wood

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The actions that need to be taken on the harmful conditions analysed in this report are described in *Cut the Strings! Why the UK government must take action now on the harmful conditions attached to debt cancellation*, Jubilee Debt Campaign, September 2006.

Jubilee Debt Campaign works for full cancellation of unjust and unpayable poor country debts, by fair and transparent means. It is a UK coalition of over 70 national organisations and 100 local and regional groups, as well as thousands of individuals nationwide.

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Introduction

2006 marks the 10th anniversary of the introduction of the Heavily Indebted Poor Countries (HIPC) initiative. Over the last decade the initiative has delivered debt cancellation which has had a substantial impact for those countries which have received it, a total of 20 countries so far. But it has meanwhile been the subject of detailed and sustained criticism by campaigners, both inside and outside HIPC countries, as being too limited, too slow, unjustifiably controlled by creditors, and based on fundamentally arbitrary and misconceived notions of what creditors can get out of impoverished countries rather than a proper analysis of what those countries should repay.

A particular focus of criticisms – and the focus of this report – is the conditionality attached to the HIPC process. The countries which have completed HIPC and had debts cancelled have been able to redirect their resources from payments to the rich world towards, for instance, health, education and infrastructure – with impressive results. But this has come only at the price of compliance with conditions which undermine their sovereignty by imposing particular policy choices, and which often harm their people, particularly the poorest and most vulnerable. Meanwhile, other impoverished countries which are eligible for HIPC (many with unpayable and unjust debt burdens are not) are held off for years from getting debt cancellation, by the demand that they comply with huge conditionality burdens which are not themselves justifiable. Many argue furthermore that external imposition of policies – even if the policies and imposition were considered legitimate – can be an extremely ineffective way to achieve sustained change, an argument that undermines the World Bank and IMF’s own case for conditionality.

This report does not go further into these criticisms. Rather it seeks to inform policy, lobbying and campaigning work on debt conditionality by providing a factual overview of the current state of HIPC conditionality. This includes detail on: where countries are in the HIPC process; what conditions are currently delaying the attainment of debt relief and cancellation through the HIPC initiative; what macroeconomic and structural conditions, often a particular focus of concern, are being imposed on countries now going through the HIPC process; and what conditions are likely to be imposed for future HIPC entrants.

A number of the organisations which commissioned this research, and many others in both South and North, are conducting policy work, campaigning and lobbying around conditionality and the HIPC process. We hope that this paper will be of use in these efforts.

Jubilee Debt Campaign
September 2006

Executive Summary

Once a country has been classified as eligible for the HIPC initiative, there **are two stages of conditionality** in order to access debt relief and cancellation:

1) to reach Decision Point (or 'enter HIPC') – a government must: stay 'on track' with implementation of an IMF programme for three years (taken as evidence of commitment to reforms favoured by the IMF); and have produced an outline of a poverty reduction strategy;
2) to reach Completion Point (or 'complete HIPC') – a government must: develop a full Poverty Reduction Strategy Paper (PRSP) and implement it for one year; conform to IMF macroeconomic policy prescriptions, as demonstrated by staying on track with an IMF Poverty Reduction and Growth Facility (PRGF) programme; demonstrate appropriate use of resources freed up from debt relief; implement governance reforms focused mostly on Public Financial Management; achieve social sector outcomes; and implement selected structural policy changes.

An examination of where countries are currently at with regard to their passage through the HIPC Initiative, reveals that the **most significant factor delaying governments from reaching Completion Point is problems with the Poverty Reduction and Growth Facility (PRGF):** a failure either to comply with PRGF programmes or to be able to reach agreement with the IMF on a new PRGF programme. In addition, some governments are also taking considerable time to implement governance conditions and others to formulate and implement PRSPs. In contrast, the **experience with social sector trigger conditions in most cases is good** since these are typically implemented without delay and are often met before other triggers are met.

Most of the **countries which have yet to reach Decision Point have been destabilised by internal conflict** and therefore have not yet managed to establish the required track record period with the IMF. Several are on their way to doing so, but others have yet to start to 'normalise' their relations with the IMF. For these latter countries, clearance of debts owing to multilateral creditors will be a first step.

The experience of countries entering the HIPC process most recently (Burundi and Republic of Congo) indicates that those **countries about to enter into the HIPC Initiative will have to comply with more or less the same** formulation of conditionality that has been imposed on countries which have already entered (currently at Decision Point) and those that have completed the initiative (reached Completion Point). There may however be an increase in governance conditionality, indicated by the experience of Republic of Congo.

When looking at the actual content of policy changes required, it is apparent that there are quite a **large number of conditions relating to privatisation or the development of public-private partnerships**. Many of these conditions have been the **subject of opposition** in the countries in which they are being imposed. These conditions are either imposed as 'floating trigger conditions', which have no timetable attached to them for implementation and can be implemented when the government is ready to do so, or are included in PRGF programmes, in which case the conditions are expected to be completed within the time period of the programme if it is not to go off track. The implication is that there **might be less flexibility** in implementing a privatisation condition which is included as a structural criterion or benchmark in a PRGF programme than a trigger condition in a HIPC document. However, it should be noted that the IMF does offer some leniency with regard to what it considers to be reasonable application of both structural trigger conditions and PRGF conditions. In some cases these conditions have not been met in full and structural reforms have been reformulated in the light of revised views of what is considered achievable.

Trade liberalisation rarely crops up as a condition for Completion Point although it does in a few cases. This may be because a significant amount of trade liberalisation has already been completed.

Governance conditions can also be a source of concern. Most of the trigger conditions for Completion Point are focused on Public Financial Management (PFM): the contents of these appear to be reasonable and could perhaps be welcomed, although the manner of their imposition is not. PRGF governance conditions, on the other hand, tend to be broader and might be considered more contentious in content also because of their political economy effects. Moreover, the sheer number of them could cause a government difficulty if its managerial capacity is stretched too far, thereby delaying attainment of Completion Point. Since the impact of public sector governance reforms on poverty reduction is an unknown quantity it is **unclear why quite so many public sector governance conditions are imposed** on debt relief. The number of them seems to be **increasing**. Republic of Congo, the most recent HIPC entrant, had a particularly large number of conditions around governance and anti-corruption. Of the other countries currently at Decision Point, only one, Gambia, has a single specific anti-corruption condition (attached indirectly through inclusion in its PRGF), although some, notably Chad, have a large number of conditions around public financial management.

In general, given the conditionality that is also imposed via PRGF programmes, there seems to be a **very large amount of conditionality** attached to achieving Completion Point.

1. Which Conditions are Causing Delays?

There are currently 40 countries that are potentially eligible for the Heavily Indebted Poor Countries (HIPC) initiative, 29 of which have actually entered and started receiving debt relief: that is, they have reached Decision Point.[1] Of those 29, 20 have reached Completion Point.[2] Those that have not qualified are mostly war-torn countries (such as Liberia, Somalia and Sudan) or post-conflict countries. Four countries (Eritrea, Haiti, Kyrgyzstan and Nepal) were added to the list of eligible countries in 2006.[3]

Table 1: Progress of Countries through the HIPC Initiative

	Eligible but not reached (E)DP	**Reached (E)DP**	**(E)DP reached**	**Reached (E)CP**	**(E)DP/(E)CP* Reached**
1	Central African Republic	Burundi	2005	Benin	2000/2003
2	Comoros	Chad	2001	Bolivia	2000/2001
3	Côte D'Ivoire	Dem Rep of Congo	2003	Burkina Faso	2000/2002
4	Eritrea	Rep of Congo	2006	Cameroon	2000/2006
5	Haiti	The Gambia	2000	Ethiopia	2001/2003
6	Kyrgyzstan	Guinea	2000	Ghana	2002/2004
7	Liberia	Guinea Bissau	2000	Guyana	2000/2003
8	Nepal	São Tomé & Príncipe	2000	Honduras	2000/2005
9	Somalia	Sierra Leone	2002	Madagascar	2000/2004
10	Sudan			Malawi	2000/2006
11	Togo			Mali	2000/2003
12				Mauritania	2000/2002
13				Mozambique	2000/2001
14				Nicaragua	2000/2004
15				Niger	2000/2003
16				Rwanda	2000/2005
17				Senegal	2000/2004
18				Tanzania	2000/2001
19				Uganda	2000/2000
20				Zambia	2000/2005

(E)DP = (Enhanced) Decision Point; (E)CP = (Enhanced) Completion Point[4]

HIPC eligibility is currently based on three criteria:

i) being an IDA-only[5] and PRGF-eligible[6] country;

ii) having debt burdens[7] at the end of 2004 which were more than 150% of the value of exports of goods and services, or were more than 250% of government revenue;[8]

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[1] At Decision Point a country receives interim debt relief on a proportion of its debt service falling due.

[2] At Completion Point a country receives full cancellation of a certain proportion of its bilateral and multilateral loans agreed at Decision Point. It also qualifies for the Multilateral Debt Relief Initiative, which gives full cancellation of World Bank debts incurred up to the end of 2003, and IMF and African Development Fund debts incurred up to the end of 2004.

[3] Afghanistan may also become eligible on the basis of end-2004 debt burdens, once these are established.

[4] The HIPC initiative was launched in 1996, and then 'enhanced' in 1999. All countries which reached Decision or Completion Point under the original HIPC initiative have also done so under the enhanced initiative, except Côte D'Ivoire, which reached Decision Point under the original initiative in 1998.

[5] IDA-only means that a country receives World Bank assistance from its concessional lending arm, the International Development Association. This is based on per capita income levels (less than $895), lack of access to private finance and 'good' policy performance.

[6] Based on per capita income levels (follows the IDA level).

[7] In net present value terms.

[8] Countries can only qualify under the revenue criterion if exports to GDP ratio and revenue to GDP ratio are above 30% and 15% respectively.

iii) having started a programme supported by the IMF and IDA by the end of 2006. Of the 11 countries listed as eligible above, all have met the first two criteria, but five have not met the third: it seems likely that the requirement to meet this criteria by end-2006 will be removed, such that these countries may qualify for HIPC in future.[9]

1.1 Countries Delayed in Reaching Completion Point

All countries must fulfil a set of 'trigger' conditions before they can reach Completion Point.[10] These are known as 'floating' conditions, meaning that they are not time-bound, but rather qualify a country for completion point whenever they are reached. Although the specific conditions vary from country to country they are broadly the same. Typically a government's conditions cover:

i) **PRSP**: produce a Poverty Reduction Strategy Paper (PRSP) and implement it for one year.
ii) **PRGF**: whilst meeting the floating trigger conditions, stay on track with a Poverty Reduction and Growth Facility (PRGF) programme negotiated with and financed by the IMF:[11] this is taken as evidence of macroeconomic stability. The PRGF macroeconomic, structural, social and governance conditions are thus indirectly included as HIPC conditions.
iii) **Use of HIPC resources**: secure World Bank and IMF approval of the use of resources freed up by debt relief granted at Decision Point (not always specified as a separate condition).
iv) **Governance**: implement conditions mostly focusing on public financial management (PFM),[12] procurement reform and, where relevant, natural resource management.
v) **Social sector conditions**: meet specific targets in any or all of education, health and HIV/AIDS sectors; occasionally infrastructure and rural development targets are included.
vi) **Structural conditions**: these are not always included, but, where they are, often include privatisation. This may require completion of a World Bank-supported programme. Specific conditions may reinforce conditions also included in the PRGF.
vii) **Other conditions**: implement other conditions such as those around debt management, or military demobilisation in post-conflict countries.

Assuming a country has not started to develop its Interim Poverty Reduction Strategy Paper (IPRSP) into a full Poverty Reduction Strategy Paper (PRSP) when it reaches Decision Point, it can be expected to take at least 2½ to 3 years to reach Completion Point: 1½ to 2 years (on average) to formulate a PRSP and 1 year to implement it. For the countries currently at Decision Point (except for Burundi and Republic of Congo, which reached Decision Point in

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[9] CAR, Côte d'Ivoire, Haiti, Kyrgyzstan, Nepal and Togo have started a programme supported by the IMF and IDA since 1996. The remaining countries – Comoros, Eritrea, Liberia, Somalia and Sudan – still need to start an IMF programme in order to become fully eligible.
[10] There is no time period specified in which these triggers should be implemented. The government is at liberty to implement them in whichever order and whatever time it sees fit. However, debt cancellation is not triggered until all trigger conditions have been sufficiently met.
[11] There is no specified length of time that the government must comply with a PRGF programme. Effectively, the government must remain on track with its PRGF for the entire period that it is implementing its trigger conditions.
[12] PFM is concerned with how budgets are planned, formulated and executed, as well as transparency regarding reporting and auditing of expenditures.

August 2005 and March 2006 respectively), most reached it 5 years ago, which means that many countries are taking longer to reach Completion Point than they should be.

Delays in reaching Completion Point can primarily be attributed to failure to comply with the conditions in PRGF programmes to the satisfaction of the IMF (see Annex 1). Either the government has gone off track with its programme or has been delayed in implementing it, in which case the staff review has also been delayed. Typically, governments have gone off track with their programmes because of their failure to meet fiscal targets. Some governments have also been slow in implementing structural conditions, particularly those relating to restructuring and privatisation of state owned enterprises (SOEs) and some governance reforms.

The current situation of those countries at Decision Point is:

- **Burundi** reached Decision Point in August 2005. It is currently on track with its PRGF, with the second review completed in September 2005. An IPRSP was produced in November 2003, but there have been repeated delays developing a full PRSP. It is now expected by the end of 2006.

- **Chad's** PRGF programme was delayed in 2003 due to the government's failure to meet several performance criteria, including minimum spending on health and education and non-accumulation of debt payment arrears. The programme expired in early 2004 before the final staff review could be carried out. This was because of delays in implementing structural reforms pertaining to the use of oil revenues and public expenditure management.[13] Subsequently, having completed measures to manage oil revenues and to strengthen public expenditure management and transparency, a new three-year PRGF programme was agreed in early 2005 which will run until end of 2007. To satisfy the HIPC macroeconomic policy trigger condition, the government will need to complete successfully the first review under the new PRGF programme and satisfactorily implement outstanding structural measures, including restructuring of the cotton sector and privatisation of Cottonchad.[14]

- The **Democratic Republic of Congo** experienced delays completing the fifth review of its PRGF programme which commenced in 2002. This was extended into 2006, but was expired before the review was completed. The IMF attributed this to "fiscal slippages and delays in implementing structural measures", pointing out that one quantitative performance criterion and four structural performance criteria were missed.[15] A staff-monitored programme was established in 2006, as a step to commencing a new PRGF.

- The **Republic of Congo** reached Decision Point in March 2006. An IPRSP has been prepared and the IMF has completed the first review of the government's PRGF programme, which was agreed in December 2004.

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[13] IMF, 2004, *Chad: 2003 Article IV Consultation; and Ex Post Assessment of Performance Under ESAF/PRGF Programs—Staff Report; Staff Statement; Public Information Notice of the Executive Board Discussion; and Statement by the Executive Director of Chad*: http://www.imf.org/external/pubs/ft/scr/2004/cr04111.pdf

[14] IMF, 2005, *Chad: Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Additional Interim Assistance Under the Enhanced HIPC Initiative—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Chad*, p18: http://www.imf.org/external/pubs/ft/scr/2005/cr0574.pdf

[15] IMF, 2006, *Democratic Republic of Congo: Staff Monitored Program*: http://www.imf.org/external/pubs/ft/scr/2006/cr06259.pdf

- **The Gambia** agreed a PRGF programme in 2002 but it immediately went off track due to rising inflation, spiraling debt-service costs, and a depreciation of the exchange rate caused by fiscal deficits, central bank losses, and poorly conducted monetary policy. In December 2005 a Staff-Monitored Programme (SMP) was agreed with the IMF; this must be implemented for a year before a PRGF can be negotiated.[16]

- **Guinea's** PRGF programme, negotiated in 2001, immediately went off track due to a failure to meet most performance criteria related to public finances, failure to achieve a structural performance criterion concerning a plan for payment of domestic areas, and poor compliance with a structural performance criterion requiring implementation of a public sector restructuring and privatisation programme.[17] The government has recently implemented a 1-year SMP agreed with the IMF, which expired in March 2006. The IMF has said that "additional policies" are necessary to strengthen macroeconomic stability, and build the track record needed to move "eventually" to an IMF-supported programme.[18] Before it meets its macroeconomic policy trigger the government must negotiate and implement a PRGF programme with the IMF and complete at least the first staff review (scheduled for 6 months after the beginning of the programme).[19]

- **Guinea Bissau** negotiated a PRGF programme in 2000 but it immediately went off track. To try to get the country back on track a Short-Term Macroeconomic Programme (STMP) was negotiated but this too went immediately off track.[20] Following recent parliamentary and presidential elections the new government is currently implementing an SMP, which commenced in June 2005. To meet its macroeconomic trigger conditions the government must negotiate and implement a PRGF programme with the IMF and complete at least the first staff review.[21]

- **São Tomé and Príncipe's** PRGF programme was negotiated in 2000 but after the first review went off track in early 2001. After implementing a 1-year SMP which began in 2002 the country established a "broadly satisfactory" track record. However, discussions on a new PRGF arrangement in 2003 were interrupted due to a coup, after which the government raised social spending to quell social tensions, leading to fiscal targets being missed. The current PRGF commenced in July 2005 and, as with the other

[16] IMF, 2006, *The Gambia: Staff-Monitored Program*: http://www.imf.org/external/pubs/ft/scr/2006/cr0638.pdf
[17] IMF, 2004, *Guinea: 2002 Article IV Consultation, First Review Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Second-Year Program Under the Poverty Reduction and Growth Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Public Information Notice and News Brief on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2004/cr0499.pdf
[18] IMF, 2006, *Staff report for the 2005 Article IV consultation and Staff-Monitored Program.*
[19] IMF, 2004, *Guinea: 2004 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2004/cr04392.pdf
[20] IMF, 2002, *Guinea-Bissau: 2002 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2002/cr02153.pdf
[21] IMF, 2004, *Guinea-Bissau: 2004 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Guinea-Bissau*: http://www.imf.org/external/pubs/ft/scr/2005/cr0569.pdf

programmes, the first staff review must be completed to satisfy the macroeconomic trigger.[22] São Tomé and Príncipe is expected to reach Completion Point in 2006.

- In May 2006, the IMF approved a new PRGF for **Sierra Leone**, to run from 2006 to 2008. A previous PRGF programme was intended to run from 2001 to 2004 but, after some delays, was eventually completed in June 2005. Sierra Leone is expected to reach Completion Point during 2006.

Thus out of the nine countries still at Decision Point, five – Burundi, Chad, Republic of Congo, Malawi, Sierra Leone, and São Tomé and Príncipe – are now on track with PRGF programmes, after past delays or programme suspensions in almost all cases. The Democratic Republic of Congo, the Gambia, Guinea and Guinea Bissau have in place or have recently completed Staff-Monitored Programmes, but do not have PRGF programmes, which will be necessary to progress through HIPC.

However, whilst nearly all countries have experienced problems complying with PRGF conditions, this has not been the only problem. Burundi, Democratic Republic of Congo, Republic of Congo, and Guinea Bissau still have to formulate a PRSP, and progress with implementing the PRSP is slow or mixed in Chad and Sierra Leone.[23] The Democratic Republic of Congo's PRSP preparation processes have been impeded by conflict, weak administrative capacity and difficulties in engaging stakeholders in a broad participatory process, whilst the difficult political situation in Guinea-Bissau in 2002-03 has delayed the PRSP preparation process. Although Sierra Leone's PRSP is now finished, it too was delayed for similar reasons.[24]

Several countries – Chad, Democratic Republic of Congo, the Gambia and Guinea Bissau – are also making slow or mixed progress with governance reforms. On the whole, much better progress has been made in meeting social sector targets, although Chad in particular is having difficulties. (Chad has a particularly high number of social sector targets included in its HIPC Completion Point trigger conditions.)

1.2 Countries Delayed in Reaching Decision Point

Many of the countries still to reach Decision Point are (or have been) debstabilised by internal conflict or civil war. These include Comoros, Eritrea, Liberia, Nepal, Somalia, Sudan and Togo. As a result, most do not have a track record with the IMF. To reach Decision Point they must achieve a reasonable 3-year track record with the IMF (requiring the IMF's approval of a government economic programme, whether funded by the IMF or not) and formulate an interim (I-PRSP) or full PRSP.

For some, clearing arrears to the IMF and other multilateral creditors will be a necessary step towards establishing a 'normal' working relationship with the IMF, after which formulation

[22] IMF, 2005, *São Tomé and Príncipe: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for São Tomé and Príncipe*: http://www.imf.org/external/pubs/ft/scr/2005/cr05323.pdf

[23] The Democratic Republic of Congo and Guinea Bissau were expected to complete their PRSPs by the end of 2005. Burundi will require more time as it has only just reached Decision Point.

[24] IMF and IDA, 2004, *Heavily Indebted Poor Countries (HIPC) Initiative: Status of Implementation*: http://www.imf.org/external/NP/hipc/2004/082004.pdf

of a Staff-Monitored Programme (SMP) can be agreed. Compliance with an SMP is a necessary step towards establishing what the IMF will regard as an adequate track record of ‘reform’.

The current status of ‘pre-Decision Point’ countries is as follows:

- **Central African Republic** has no PRGF programme with the IMF but it is implementing an IMF programme and receiving Emergency Post-Conflict Assistance which is sufficient to establish the required track record.

- **Comoros** has no IMF programme at present. It has substantial arrears to multilateral and bilateral creditors, and is being encouraged to service current multilateral debt obligations and to reschedule existing bilateral debt. A 1-year SMP was approved in early February 2005. Satisfactory performance under the SMP would provide a track record of policy implementation that could lead to a PRGF arrangement in early 2006 and to reaching Decision Point.

- The IMF agreed a PRGF programme with the government of **Côte d’Ivoire** in 2002. However, it went immediately off track and a subsequent programme has not yet been negotiated.

- **Eritrea** has no programme with the IMF.

- Since 2005 **Haiti** has had an IMF programme supported by Emergency Post-Conflict Assistance.

- **Kyrgyzstan** embarked on a PRGF programme in 2005.

- **Liberia** has no IMF programme. It is trying to ‘normalise’ its relations with the IMF by clearing its substantial arrears to it and other multilateral creditors. The IMF is currently monitoring a programme agreed with the government and, assuming the government stays on track with this; an SMP will then be agreed.

- **Nepal** negotiated a PRGF programme in 2003 and completed the first review in October 2004, but it has since gone off track in the midst of political instability. In 2003, it published a PRSP to run until 2007.

- **Somalia** has no relationship with the IMF.

- **Sudan** has no IMF programme. It must also normalise its relations with the IMF by paying off the arrears on its multilateral debts. Bilateral donors are working with the government to secure resources for this.

- **Togo**, which has been troubled by an unstable political situation, has failed to establish a track record considered reasonable under an SMP, partly due to aid being withheld from the country since 2002 because of concerns about election malpractices.

Of these 11 countries, four – the Central African Republic, Haiti, Kyrgyzstan, and Nepal – are close to reaching Decision Point. All have IMF-monitored programmes and two – Kyrgyzstan and Nepal – have completed their IPRSP/PRSP.

2. Contentious conditions

Economic policy conditions are a particular subject of criticism. In addition to general criticisms of conditionality as undemocratic and disruptive of governments' accountability to their own people, there are particular concerns about these conditions as likely to be:

i) of a kind which often have negative impacts on the poor and vulnerable;
ii) deeply unpopular and lacking legitimate public or governmental support, which therefore intensifies concerns about undermining democracy;
iii) too demanding of governments which have low capacity and/or are faced by frequent macroeconomic shocks caused, for example, by uncertain aid flows, trade shocks and environmental shocks;
iv) too numerous and therefore imposing an unreasonable burden on countries which need debt cancellation now to meet the needs of their people.

2.1 Macroeconomic Conditions

Several of the governments that have taken longer than expected to reach Completion Point are having problems complying with the IMF's macroeconomic conditions, which are often criticised for being too 'tight': macroeconomic targets are set to achieve low rates of inflation, minimise budget deficits, maintain debt sustainability and facilitate private sector investment, all of which set strict limits on what a government can spend and how it can spend its money.

Five countries at Decision Point currently have programmes with the IMF. Looking at the macroeconomic targets contained in these PRGFs it is clear that inflation and primary budget deficit/surplus targets are being set very low (see Table 2). Four governments are required to reduce inflation to single figures, with Chad and Republic of Congo required to hold inflation to 3% or below. All programmes require a reduction in the government's primary deficit (before grants) or an increased surplus, which implies a cutback in government spending from domestic resources. For most countries (except São Tomé and Príncipe) the primary deficit/surplus target ranges between -3.5 and 13.2% of GDP (in some cases non-oil GDP) to prevent further expansion of public sector debt and preferably facilitate repayment of domestic public debt.

Table 2: PRGF Macroeconomic Targets for Countries at Decision Point

Country	Inflation target	Budget deficit	Domestic debt	Reserves
Burundi 2005-2008	10% in 2005.	Overall deficit (including grants) of 0.2% of GDP in 2005.		6.5 months of imports by end 2005.
Chad 2005-2007	3% in 2005.	Primary non-oil balance will fall from -6.5% of non-oil GDP in 2005 to -4.6%, -4.1% and -3.5% in 2006, 2007, and 2008 respectively.	Domestic debt is programmed to be reduced by 2% of non-oil GDP.	

Republic of Congo 2004-2007	2% annually.	Primary surplus of 10.1% of GDP in 2004 and 13.2% of GDP in 2005. A current account surplus of 1.6% annually.	In 2005, 2% of GDP reserved for clearance of domestic arrears.	
São Tomé and Príncipe 2005-2007	Down to 15% by end of 2005, and reduced to single digits by 2007.	Primary deficit targeted to decrease from 20.6% in 2004 to 17.5% in 2005 and to 7.6% by 2007.		Increase to 3.4 months of imports in 2005.
Sierra Leone 2006-08	Average annual inflation of 11.7% in 2006.	Domestic primary deficit targeted at 1.8% of GDP in 2006; and overall deficit (incl. grants) of 0.5% in 2006.	Reduce domestic debt from 27.5% of GDP in 2005 to 17.6% by 2008.	3 months of imports from 2005 to 2008.

It is particularly slippage in implementation of fiscal policies (ie concerning spending levels and budget deficit/surplus targets) that is a frequent cause of programme delay and even breakdown. Many governments have had problems complying with the IMF's budget targets either because they have raised insufficient revenues or they have over-spent. Gaps in the budget have typically been financed either by increased borrowing from the domestic banking sector or by accumulating arrears, which has led to non-fulfilment of other performance criteria.

It is unclear whether targets are missed because reforms are not owned by governments, because reforms are too complex or because targets are simply too difficult to meet, although Martin (Debt Relief International) singles out overambitious target-setting caused by "over-rigid fiscal and macroeconomic frameworks to reach lower inflation targets" as a primary factor.[25] This ambitiousness is sometimes recognised by IMF staff members, who also hint at only limited ownership. For example, in relation to Cameroon's programme the staff noted that, "The authorities will need a strong political will to implement the fiscal strategy and adhere to the budget targets under the program." And, in relation to Chad's programme, the staff remark that, "Administrative capacity constraints for policy formulation and weaknesses in expenditure- and cash-management systems could undermine the attainment of fiscal targets."

Specific reasons for missing IMF macroeconomic targets (including for some countries which have now completed HIPC) include:

Chad's initial problems with the IMF arose in 2003 and centred round its failure to notify the IMF that it had failed to remain current with debt payments, thereby accumulating more arrears and failing to meet a performance criterion. These arrears were eventually paid off and corrective actions were implemented, although not without delay.[26] The fifth review was completed in 2003 but there was not sufficient time to complete the sixth review before the expiration of the programme in 2004.

[25] Martin, M., and A. Johnson, 2003, *A Lasting Solution to Africa's Debt Problems*, Issues Paper for UNECA, p11, Debt Relief International: http://www.dri.org.uk/pdfs/DRI_UNECA_Debt_Solution.pdf
[26] IMF, 2003, *IMF Executive Board Reviews Noncomplying Disbursement to Chad*: http://www.imf.org/external/np/sec/pr/2003/pr0398.htm

The **Democratic Republic of Congo's** programme for 2002-2006 in the end went off track because the IMF declared that the government failed to comply with budget targets (although overall budget deficit targets were met). Budget overruns were attributed to "spending by political institutions and the military and to increases in wages granted last fall to ease social tensions".[27]

Gambia's PRGF programme covering the years 2001-2004 went off track in 2002 after the first review, which was significantly delayed. Among other things, macroeconomic problems were caused by higher than budgeted spending and poor revenue mobilisation leading to an increase in the fiscal deficit, which was largely financed by government borrowing from the central bank. As a result, inflation rates rose from about 3% to nearly 12%.[28] Talks concerning an SMP in 2003 stalled as the government continued to implement expansionary fiscal policies. IMF staff concluded that, "An insufficient commitment to contain public spending, compounded by weak governance, lay at the heart of the policy shortcomings."[29]

Guinea-Bissau's PRGF programme for 2000-2003 went immediately off track due to large, unauthorised expenditures – mostly on defence – financed by borrowing from the banking system and issuing promissory notes.[30] The government also redirected money intended for the demobilisation programme and accumulated wage and domestic debt arrears. The SMP that was subsequently agreed also went off track due to government over-spending on wages and "unprogrammed items".[31]

Malawi's fiscal problems were made worse by drought and the threat of food shortages. The government financed its fiscal deficits and maize operations by borrowing from domestic banks. This resulted in high rates of interest and a lack of credit to the private sector. In addition to the costs of the maize programme, fiscal slippages were attributed to bailouts of SOEs that had accumulated large domestic debts, large increases in interest rates caused by accumulation of domestic debt, and overruns on the wage bill and other current expenditures.[32]

Honduras' programme, which started in 1999, went off track at the end of 2001 after the third staff review, due primarily to fiscal policy slippages and to non-implementation of wage-related structural reforms. Fiscal problems concerned weak tax collection and pressures to raise wage spending which intensified due to forthcoming elections. The unimplemented structural performance criteria concerned submission to congress of a civil service reform

[27] IMF, 2006, *Democratic Republic of the Congo: Staff-Monitored Program*: http://www.imf.org/external/pubs/ft/scr/2006/cr06259.pdf

[28] Other problems included a de facto fixing of the exchange rate and weak monetary management, including failure to raise the interest rate to manage liquidity.

[29] IMF, 2003, *The Gambia: 2003 Article IV Consultation—Staff Report; Report on Noncomplying Disbursements and Recommendation for Corrective Action; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for The Gambia*: http://www.imf.org/external/pubs/ft/scr/2004/cr04143.pdf

[30] Guinea-Bissau had suffered armed conflict between 1998-99.

[31] IMF, 2002, *Guinea-Bissau: 2002 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2002/cr02153.pdf

[32] IMF, 2003, *Malawi: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Performance Criteria, Extension and Rephasing of the Arrangement, and Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi*: http://www.imf.org/external/pubs/ft/scr/2003/cr03344.pdf

draft law that would allow containment of the government wage bill and the elimination of the special wage regimes, and the approval of a budget that would limit central government wages in 2002 to less than 9.1% of GDP.[33]

Rwanda failed to complete the last review of its PRGF programme which was agreed in late 2000 and ran until 2002. The failure was due to inability to agree a budget and a medium term fiscal framework with the IMF, although it had met its fiscal targets. A subsequent programme was agreed for 2002-2004.[34]

Senegal's PRGF covering the period 1998 to 2002 expired before the final staff review was completed and, as a consequence, it was not possible to meet Completion Point by the end of 2001 as had been predicted. The review was not completed due to the problems with the state-owned electricity and groundnut companies that caused problems for the government's finances and slow implementation of pension reforms and structural reforms in the groundnut sector.[35]

Zambia agreed a PRGF with the IMF in 1999. The fifth review was completed in November 2002 but then the programme expired before the final review was completed in March 2003. A new programme was delayed due to disagreements between the IMF and the government concerning the size of the government's wage bill, which was to be financed by increased government borrowing. The IMF staff were concerned about the predicted size of the budget overrun, and the squeeze this and the associated debt payments would put on other priority government expenditures. They were also concerned about the impact of higher government borrowing on interest rates. As a result, the government was forced to renegotiate wage agreements with the unions and adopt an SMP for the period July-December 2003.[36] However, further non-budgeted payments on security-related expenditures and retrenchment benefits and wage arrears and under-spending in priority poverty-reducing sectors meant that budget conditions in the SMP were not met and the SMP was extended. Eventually a new programme was agreed in mid 2004.[37]

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[33] IMF, 2006, *Honduras: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Honduras*: http://www.imf.org/external/pubs/ft/scr/2006/cr0648.pdf

[34] IMF, 2002, *Rwanda: 2002 Article IV Consultation and Requests for a New Poverty Reduction and Growth Facility Arrangement and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; and Public Information Notice and Press Release on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2002/cr02204.pdf

[35] IMF, 2003, *Senegal: 2002 Article IV Consultation and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion*: http://www.imf.org/external/pubs/ft/scr/2003/cr03167.pdf

[36] IMF, 2003, *Joint Statement by the Government of Zambia and the IMF Staff Mission*, Press Release No.03/132: http://www.imf.org/external/np/sec/pr/2003/pr03132.htm

[37] IMF, 2004, *Zambia: 2003 Article IV Consultation and Ex Post Assessment of Performance Under Fund-Supported Programs—Staff Reports; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Zambia*: http://www.imf.org/external/pubs/ft/scr/2004/cr04214.pdf

2.2 Structural Conditions

Delays in implementing structural conditions may also set back a government from reaching Completion Point. Whilst a quick look at the Completion Point trigger condition matrices might give the impression that, on the whole, structural conditions are few in number, it should be remembered that PRGF programmes – compliance with which is always a trigger condition for completing the HIPC initiative – also contain considerable numbers of structural conditions. These are often concerned with restructuring or privatisation of SOEs or public sector governance reforms such as civil service reform. Martin cites "insistence on executing 'left-over' structural conditions from past ESAF/PRGF (regardless of whether these will reduce poverty)" as another factor in PRGF delay.[38] Again, it is not clear whether delays in implementation are due to difficulty in implementing structural conditions or an unwillingness to implement them.

Some of the most contentious policies imposed through structural conditions are concerned with reform of SOEs. An examination of the 'floating' structural triggers required to meet Completion Point reveals that more than half the countries which have reached Decision Point will be (or have been) required to implement reforms concerning public-private partnerships, commercialisation or out-right privatisation of SOEs to meet Completion Point (see Table 3).[39]

Table 3: Floating Privatisation Trigger Conditions to Reach Completion Point[40]

Benin	Adopt strategy to privatise SONAPRA (parastatal in coffee sector) after abolishing the single-buyer market.
Burundi	Tender for sale the state holdings in a majority of coffee washing stations.
The Gambia	Bring to point of sale the two major groundnut processing plants; establish a multi-sector regulatory agency.*
Ghana	Implement strategy for achieving full economic pricing in electricity sector.**
Guyana	Bring the Guyana National Commercial Bank to the point of sale and open it to bidding.
Mali	Continue to implement reforms under the Cotton Sector Rehabilitation Programme. Pursue privatisation programme, especially of public utilities and banks, including privatisation of 10 non-bank state enterprises, and limit government ownership of banks to 20% of the capital.
Mauritania	Privatise Air Mauritanie and parts of the major utility companies: OPT (telecoms) and SOMELEC (electricity and water).
Mozambique	Adopt regulations for private sector involvement in the telecommunications and energy sectors.
Nicaragua	Divest of ENITEL (telecoms) and all remaining electricity units of ENEL (electricity).
Rwanda	Privatise at least 2 of the 9 state-owned tea factories/estates.
Senegal	Privatise 11 public sector enterprises, so as to reduce the public sector ownership to one-quarter of the original portfolio.
Sierra Leone	Pass bill to introduce new privatisation legislation to establish an independent National Commission for Privatisation, to implement the Divesture Strategy.
Tanzania	Sign concession agreement assigning assets of DAWASA (water utility) to private management companies. Initiate process for unbundling TANESCO (electricity) into autonomous commercial units. Adopt framework for regulatory authorities for the utilities .

[38] Martin, M., and A. Johnson, 2003, *A Lasting Solution to Africa's Debt Problems*, Issues Paper for UNECA, p11, Debt Relief International: http://www.dri.org.uk/pdfs/DRI_UNECA_Debt_Solution.pdf
[39] A trigger is known as a 'floating' condition because there is no timetable set for its implementation.
[40] All conditions are taken from the countries' Decision Point documents.

Zambia	Restructure and issue international bidding documents for sale of majority interest in ZESCO (power) and for Zambian National Commercial Bank (ZNCB).

* A 'milestone'- ie benchmark condition - also calls requires the government to 'eliminate monopolies or oligopolies in energy distribution (fuel and wood) and generation (electricity)
** Could be a pre-condition for privatisation but is not made explicit in document.

Several governments' PRGF programmes have also included privatisation conditions (see Table 4). For example, in Cameroon's latest PRGF programme (2005-2008) one out of two structural performance criteria and three out of eight benchmark conditions demand privatisation or restructuring of SOEs. Privatisation was also a component of the government of Cameroon's Structural Adjustment Credit (SAC) III programme with the World Bank, completion of which was a HIPC trigger.

Table 4: Privatisation Conditions Included in PRGF Programmes

Country	**PRGF**	**Privatisation Conditions PCs & BMs***
Burundi	2004-2007	Begin privatizing coffee sector assets by launching tenders for Sogestals (coffee processing stations), washing stations, and the state share in SODECO (coffee company). Liberalization of sugar sector (*BM). Begin privatization program (with launch of tenders) of all state shares in enterprises in the productive and financial sectors.
Cameroon	2005-2008	Adoption of privatization strategy of CAMAIR (national airline) by end-December 2005 and launching of the invitations for bids by end-January 2006 (*PC). Launching of the invitation for bids for the management contract of the public-private partnership for SNEC (water company) by end-July 2006 (*BM). Recruitment of a management contract team for CAMPOST (national postal service) by end-February 2006, completion of preparatory work to establish a financial subsidiary by end-June 2006 (*BM). Finalization and adoption of privatization strategy of CAMTEL (telecoms) by end-December 2005, based on the sectoral strategy on telecommunications finalized by end-October 2005, and offering the company for sale by end-June 2006 (*BM).
Chad	2005-2007	Proposal to include benchmark conditions to restructure the cotton sector and privatise Cottonchad in the 2005-2007 PRGF programme.
Côte d'Ivoire	2002- **	Offering for sale government shares in the Ivoirien oil refinery (SIR) (*PC); Publication of the invitation to express interest in the privatization of the CAA (Autonomous Amortisation Fund) (*PC).
Malawi	2000-2003**	Commercialization of the Agricultural Development and Marketing Corporation (ADMARC) in preparation for its privatization (including its subsidiaries: Cold Storage; Shire Bus Lines; Grain and Milling; and David Whitehead and Sons). Privatization of the two main subsidiaries of Malawi Development Corporation (Sunbird Tourism and Malawi Property Investment Company); Malawi Telecom Limited (MTL); and Air Malawi.
São Tomé and Príncipe	2000-2001**	Adoption by the government of a privatisation programme of large agricultural estates and a law simplifying real property and land ownership (*PC).[41]
São Tomé and Príncipe	2005-2007	Conduct feasibility studies on the privatization of the port authority (ENAPORT) and the airport and air security state company (ENASA).
Senegal	2003-2005	Issue a tender for the concession of an Independent Power Producer (IPP) to operate a 60 MW production plant, under the conditions outlined in the new Energy Sector Policy Letter by June 30, 2003 (*PC). Issue an international tender for the privatization of SONACOS (groundnut refinery) by July 31, 2003 (*PC).***

[41] IMF, 2000, *São Tomé and Príncipe: Staff Report for the 1999 Article IV Consultation and Request for an Arrangement Under the Poverty Reduction and Growth Facility*: http://www.imf.org/external/pubs/ft/scr/2000/cr0066.pdf

* PC = Performance Criterion; BM = Benchmark
** This PRGF programme went off track
***Reforms in these areas were not specified as structural performance criteria or benchmarks but they were clearly monitored and timetables set for their implementation.[42]

Privatisation conditions are often resisted by civil society groups and disliked by governments – and can be technically problematic to implement. These difficulties manifest in slow progress with the implementation of structural reforms, which has been noted by IMF staff in several countries.

Examples of resistance and problems include:

- In **Cameroon,** CAMAIR and CAMTEL, the state's airline and telecommunication companies, have recently been put up for sale. Opposition parties have threatened to organise protests against the sale of CAMAIR. There are also concerns about the apparent secrecy around the sale and the short time frame in which bids can be received.[43]
- The Government of **Gambia** renationalised its ground nut industry in 1999. It agreed to re-privatise the Ground Nut Corporation as a condition for achieving Completion Point. However, privatisation had still not been achieved by the end of 2005, despite IMF staff hopes that it would be completed in early 2004.[44] It is reported that delays are due to 'bottlenecks' in the process, particularly within the Gambia Divesture Agency.[45]
- In **Mali,** there was public resistance to the privatisation of the state railway company (now privatised, and having had more than half of its stations closed) and a campaign is on-going for it to be re-nationalised.[46] There has also been resistance to privatisation in the cotton sector. At reaching Completion Point there had been divestment of non-core activities in the sector and other privatisations were planned. However, several planned privatisations in the sector have now been delayed until 2008.
- In **Nicaragua,** citizens protested at the rise in consumer prices and poor quality of services related to privatisation of the electricity and telecommunications companies.[47]
- In order to comply with its Enhanced Structural Adjustment Facility (ESAF) programme agreed with the IMF, and therefore to reach Decision Point, the **Senegalese** government was required to privatise several SOEs despite opposition to privatisation

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[42] *Senegal: 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Criteria— Staff Report; Staff Statement; Public Information Notice and News Brief on Executive Board Decision*: http://www.imf.org/external/pubs/ft/scr/2001/cr01186.pdf

[43] The PostNewsLine.com, 2006, Camair Sale Begins: http://www.postnewsline.com/2006/02/camair_sale_beg.html

[44] IMF, 2005, *The Gambia: Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*: http://www.imf.org/External/NP/LOI/2005/gmb/122005.pdf; IMF, 2003, *The Gambia: 2003 Article IV Consultation—Staff Report; Report on Noncomplying Disbursements and Recommendation for Corrective Action; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for The Gambia*: http://www.imf.org/external/pubs/ft/scr/2004/cr04143.pdf

[45] Jubilee Zambia, 2005, *A Human-Needs Based Debt Sustainability Analysis: A Challenge For Zambia*: http://www.jctr.org.zm/downloads/debtsusrpt0805.pdf; IMF, 2006, *The Gambia: Poverty Reduction Strategy Paper—Annual Progress Report*: http://www.imf.org/external/pubs/ft/scr/2006/cr0612.pdf

[46] Bretton Woods Project, 2005, *Setbacks to Privatisations Across Africa*, in *Bretton Woods Update,* No. 46: http://www.brettonwoodsproject.org/article.shtml?cmd%5B126%5D=x-126-235773

[47] Possing, S., 2003, *Between Grassroots and Governments Civil Society Experiences with the PRSPs A Study of Local Civil Society Response to the PRSPs*, Danish Institute for International Studies: http://www.globalpolicy.org/ngos/int/bwi/2003/09grass.pdf

from unions.[48] [49] Moreover, privatisation continued to be insisted upon in each annual PRGF programme between 2000 and 2003 with explicit conditions imposed on the privatisation of the Groundnut (SONACOS) and electricity (SENELEC) companies.[50] The IMF's staff put delays in privatising SONACOS and SENELEC down to technical difficulties, changes in the international energy market and a lack of government 'resolve'.[51]

- The **Sierra Leone** government has complied with its trigger condition to establish an independent body to facilitate privatisation and its PRSP indicates that it will move ahead to privatise 25 SOEs. Reactions to privatisation are mixed with concerns focusing on access to, the quality of, and the cost of services provided. Some commentators argue that 'cooperatisation' would be preferable to privatisation.[52]
- In **Tanzania**, despite considerable opposition from national and international civil society organisations, management of DAWASA – the state water company – was handed over to British firm Biwater in 2003 as a condition for reaching Completion Point. However, the contract was revoked in 2005 after the company failed to fulfil the terms of its contract. The government has subsequently proposed to hand over management of the water supply to DAWASCO (Dar es Salaam Water and Sewage Corportation), a newly formed government company.[53]
- Despite presidential, civil society, media and parliamentary opposition to the privatisation of the Zambia National Commercial Bank (ZNCB) and other remaining public enterprises – including a vote in Parliament which condemned privatisation of the ZNCB and a public campaign led by unions to "Save Our Last Parastatals" – the Government of **Zambia** offered the ZNCB for sale after IMF insistence that it must do so to reach Completion Point.[54] [55]

There is a mixed picture regarding the extent to which compliance with privatisation conditions are enforced by the IMF and World Bank. In some cases they have shown some leniency with regard to the degree to which privatisation conditions must be implemented and they have reconsidered and reformulated them in the light of difficulties in finding buyers for some SOEs. For example, although Zambia did not fully meet its two privatisation conditions

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[48] The IMF cited technical difficulties and resistance to privatisation as cause of the delay in privatisation and energy sector reforms, see: IMF, 1998, *IMF Approves Three-Year ESAF Loan for Senegal*, Press Release No. 98/15: http://www.imf.org/external/np/sec/pr/1998/pr9815.htm

[49] For case studies of the privatisation of the electricity company and groundnut companies see: Dembele, D. M., 2003, *Debt and Destruction in Senegal, A Study of Twenty Years of IMF and World Bank Policies*, World Development Movement, London.

[50] IMF, 2003, *Senegal—Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding*: http://www.imf.org/external/np/loi/2003/sen/01/index.htm#mefp

[51] IMF, 2004, *Senegal—HIPC Enhanced Initiative for Heavily Indebted Poor Countries-Completion Point Document*: http://www.imf.org/external/pubs/ft/scr/2004/cr04130.pdf

[52] Eurodad, 2005, *A New Development Agenda, Sierra Leone's First PRSP*: http://www.eurodad.org/articles/default.aspx?id=642

[53] Bretton Woods Project, 2005, *Setbacks to Privatisations Across Africa,* in *Bretton Woods Update,* No. 46: http://www.brettonwoodsproject.org/article.shtml?cmd%5B126%5D=x-126-235773

[54] Anonymous, *An Overview of Privatisation of Parastatals: The Case of Zambia National Commercial Bank*: http://www.union-network.org/unisite/regions/africa/pdf/labourissues/AnOverviewOfPrivatisationOfParastatals Zambia.pdf; Jesuit Centre for Theological Reflection, 2003, *Privatisation Solidarity*: http://www.jctr.org.zm/publications/privasol.htm; Hardstaff, P., 2003, *Treacherous Conditions, How IMF and World Bank Policies tied to Debt are Undermining Development*, World Development Movement, London; Situmbeko L. C. and J. Jones Zulu, 2004, *Zambia: Condemned to Debt, How the IM and World Bank Have Undermined Development*, World Development Movement, London: http://www.wdm.org.uk/campaigns/colludo/zambia/zamexecsum.htm

[55] See: http://www.zpa.org.zm/

it did still achieve Completion Point. In deciding that the government had reached Completion Point, the IMF and World Bank accepted that it would commercialise ZESCO (the state power company) instead of restructuring and privatising it, and that it would again open bidding on the ZNCB after earlier attempts to find a buyer proved unsuccessful.[56] Similarly, in Mali, the IMF and World Bank accepted that the government was sufficiently in compliance with its privatisation reforms to reach Completion Point although it had not fully complied with them.[57] However, there is a tendency for the IMF to persist in including privatisation conditions in subsequent programmes if they have not been achieved in previous programmes. Thus ultimately the expectation is that SOE restructuring will be achieved even if original proposals have to be reconsidered.

Six out of the ten countries currently at Decision Point were told to implement privatisation conditions – three have privatisation trigger conditions, and four have or had privatisation conditions in current or previous PRGF programmes. For the four countries without privatisation conditions, further structural conditions could of course be included through PRGF programmes in future: two of the four currently have no PRGF.

Of the three that have floating trigger conditions linked to privatisation (Burundi, the Gambia and Sierra Leone), there is no information on how far Burundi has progressed with implementing its trigger conditions since it reached Decision Point only in 2005, whilst the Gambia is close to achieving its privatisation trigger and Sierra Leone has completed it.

Burundi has further privatisation conditions included in its PRGF, as do Chad and São Tomé and Príncipe. Malawi had privatisation conditions in a previous PRGF that went off track. Some of these conditions had already been completed, whilst others are being continued through a Privatisation and Utility Reform Programme with the World Bank. Burundi's PRGF is on track, whilst Chad and São Tomé and Príncipe are still in the early stages of implementing new PRGF agreements, so it is not known yet whether privatisation will be resisted by – or be problematic for – these governments, or be disputed by citizens.

Another area of policy conditionality that has been a particular source of dispute is trade liberalisation. Both Burundi and Mali have been required to liberalise certain sectors to reach Completion Point. Mali liberalised its cotton sector as part of a trigger condition which demanded that the government "continued implementation of reforms under the cotton sector rehabilitation plan."[58] Benchmark conditions requiring liberalisation of the coffee sector have also been included in the latest PRGF programme for Burundi, one of the countries to reach Decision Point most recently.[59] Liberalisation conditions have also been included in the PRGF programmes that governments have been required to implement to show a track record of

[56] IMF, 2005 *Zambia: Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document*: http://www.imf.org/external/pubs/ft/scr/2005/cr05137.pdf
[57] IMF, 2003, *Mali: Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document*: http://www.imf.org/external/pubs/ft/scr/2003/cr0361.pdf
[58] IMF, 2003, *Mali: Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document*: http://www.imf.org/external/pubs/ft/scr/2003/cr0361.pdf
[59] The government is required to issue a decree for the liberalisation of coffee sector marketing and trade at all levels of the production chain, and lift trade restrictions and price controls on sugar. See IMF, 2005, *Burundi: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi*: http://www.imf.org/external/pubs/ft/scr/2005/cr05322.pdf

reform in order to reach Decision Point. For example, the government of Côte d'Ivoire agreed to liberalise its coffee sector as part of its programme with the IMF.[60]

2.3 Governance Conditions

Table 5 reveals that the majority of governance conditions (imposed either as trigger conditions or as PRGF conditions) are concerned with public financial management (PFM). Reforms in this area are often supported by civil society organisations in the North and South because they help to improve government transparency and accountability – although this means of achieving reform is contentious. However, public sector governance conditions in other areas, such as those in the areas of civil service reform, procurement and judicial reform, are more problematic. For example, civil service reforms are often resisted by unions. These types of governance reforms appear to be applied via PRGF programmes rather than directly as trigger conditions. However conditions relating to public procurement are often included as triggers: these are also contentious if they open up procurement to international businesses.

Table 5: Frequency (by Type) of Governance Conditions (Trigger and PRGF Conditions)

Country	PFM	Public Procurement	Service Delivery	Anti corruption	Audit/ judicial reform	Civil Service reform	Other	Total
Burundi	1, **1**		4		**4**	**1**		5+**6**=11
Chad	1, **6**	1				**1**	1	3+**7**=10
Dem Rep of Congo	3, **4**	1	1			**2**	**1**	5+**7**=12
Republic of Congo	4, **3**	1, **1**		3	1, **5**		1, **3**	10+**15**=25
The Gambia*	1							1
Guinea*		1		1				2
Guinea Bissau*	2	1						3
São Tomé and Príncipe	4, **3**				**1**			4+**4**=8
Sierra Leone	2, **1**				**1**	**5**		2+**7**=9
Total	18+**18**=36	5+**1**=6	5	4	1+**11**=12	**9**	2+**4**=6	35+**43**=78

Non-bold figures are the number of floating trigger conditions
Figures in **bold** are the number of PRGF governance conditions
* Have no PRGF programme in place

As with all external conditionality, there are concerns – regardless of the content of conditions – about the legitimacy of reform imposed by unaccountable external bodies. In particular, the concern is that attempts to strengthen governance through processes that bypass or even undermine democratic structures and governments' accountability to their own citizens will be ineffective or even counter-productive.

[60] Hardstaff, P., 2003, *Treacherous Conditions, How IMF and World Bank Policies Tied to Debt are Undermining Development*, World Development Movement, London.

But even if these concerns were set aside on the grounds that the content of the reforms is – or is likely to be – supported by civil society and parliaments in these countries, HIPC governance conditions may still be considered problematic because of the sheer number that a government must implement. On average, those governments that are implementing a PRGF and are still to reach Completion Point are required to complete at least 10 governance conditions.[61]

The large number might not be considered too problematic if it were assured that they would have a positive impact on poverty reduction. However, this is not certain, since little or no research has been done to investigate which governance conditions have the greatest impact on the poor and whether they should be implemented in a particular sequence. Generally it can be argued that any measures that free up government resources, ensure they are used more efficiently or prevent 'leakages' are poverty-focussed if they lead to more pro-poor social sector spending or the delivery of more services to the poor. However, there is no guarantee of this. For public sector governance reforms to lead to more pro-poor social sector spending and service provision, it may well be the case that 'supporting' governance reforms, possibly including political governance reforms, are needed to ensure that freed-up resources are channelled in the direction of the poor. The problem is that it is not known what 'supporting' governance conditions (if any) might be necessary.[62] Given the uncertain impact of public sector governance reforms on poverty reduction, one wonders why so many of them are included in HIPC programmes.[63]

2.4 Conditions for New HIPC Entrants

Given the relatively uniform format of conditions imposed on countries to meet Decision Point and Completion Point (at least with regard to the countries currently at Decision Point), there is little reason to assume that there will be any significant changes in the conditions imposed on new entrants to the HIPC initiative – except possibly an increase in conditions around governance and public financial management.

To reach Decision Point it is likely that new entrants will be required to:

i) establish a 3-year track record with the IMF, either demonstrated by having a PRGF programme, an SMP, or a programme supported with an Emergency Post-Conflict Assistance (EPCA) credit;

ii) formulate an IPRSP or poverty reduction strategy.

Given that most of those countries that are eligible for HIPC but have not yet reached Decision Point are politically fragile, it seems doubtful that some degree of track record will not be demanded.

A look at the Completion Point Triggers for Burundi (see Annex 2.1), which reached Decision Point in August 2005, reveals that these are similar to the triggers normally observed in Decision Point documents (see Annex 3). This would indicate that new entrants to HIPC and those countries that are soon to reach Decision Point will face a list of similar conditions.

[61] Governments will also be required to implement governance conditions included in multilateral development bank programmes and bilateral donor programmes too.

[62] See Grindel, M., 2004.

[63] See also Trócaire 2005, *Demystifying 'good governance': an overview of World Bank Governance Reforms and Conditions*, Wood A.

However, the Completion Point Triggers for the Republic of Congo (Annex 2.2), the country which reached Decision Point most recently (in March 2006), include a greater emphasis on public financial management, governance and natural resource management. This is in response to concerns specific to that country, a number of which were raised at the time of Congo's Decision Point discussions. The increase may be more or less ‘business as usual’, rather than signalling a shift in thinking which would affect all future HIPCs: there was after all a similar, though slightly lesser, emphasis in the triggers for Chad (reached Decision Point in 2001) and Democratic Republic of Congo (reached Decision Point in 2003), which are also countries with significant natural resources and / or governance concerns. However, given the World Bank’s increased emphasis on corruption and governance since 2005, this increase may well be an indicator of what can be expected for all future HIPC entrants. The other – structural and social sector – conditions for the Republic of Congo are not atypical.[64]

In the case of countries emerging from civil war/internal conflict, it can also be anticipated there will be a military demobilisation condition, and for some countries structural conditions, including privatisations and sectoral reform, might also be included.

[64] The number of social sector triggers can vary considerably. Republic of Congo has only 3 social triggers, similar to the numbers for Burundi, Gambia and Guinea, whilst Chad has 10 and Malawi had 12.

3. Summarised key findings

- There is still a very large amount of conditionality attached to HIPC Completion Point.
- A number of countries are experiencing significant delays in reaching Completion Point, longer than might be expected from the terms of the initiative.
- Macroeconomic conditionality such as tight fiscal targets – which is measured through PRGF compliance – is the major barrier to progress through the HIPC initiative.
- Structural conditionality – especially privatisation conditions – are an important issue for some, but not all, HIPC countries. Privatisation conditions are a major source of public and parliamentary opposition in these countries.
- Trade liberalisation is less frequently imposed, but does come up in conditions occasionally and has done in a recent case (Burundi).
- There is a very large amount of governance conditionality attached to HIPC, without clear evidence of its impact or effectiveness on poverty reduction.
- The conditionality around social sector targets (commonly education, health and HIV / AIDS) is most likely to be implemented without problems by governments, perhaps indicating that these actions are those that the governments or civil society supported anyway.
- There is no sign of a change in conditionality for recent HIPC entrants, unless in an increase in governance conditionality.

Annex 1

Progress of Decision Point Countries with meeting conditions for reaching Completion Point, as of August 2006

Country	PRSP Implementation	PRGF Implementation	Governance reforms	Education targets	Health targets	HIV targets	Other
Burundi	IPRSP completed in November 2003, but PRSP development repeatedly delayed; now expected by end-2006.	PRGF on track, third and fourth reviews completed in 2006.	Recently reached decision point, so no evidence yet.				
Chad	Limited progress but first annual progress report has been completed.	PRGF went off track in 2004. New PRGF agreed in early 2005.	Making progress but slower than expected.	One met (on enrolment), the other outstanding (on reducing repeats).	One health trigger met, the other is outstanding.	Not met.	Infrastructure conditions met; 1 rural development trigger met, with 2 outstanding.
Dem Rep of Congo	IPRSP produced in 2002, with 2 status reports since. Preparation of full PRSP has been slow and subject to delay.	PRGF went off-track in 2006. 1-year SMP established in 2006.	Progress made but more effort needed to fully meet triggers.	Progress being made.	Progress being made.	None specified.	No strategy produced for rural sector.
Republic of Congo	Rep Congo produced an IPRSP in 2002, the full PRSP has been delayed but is now expected by end-2006.	PRGF on track, second review completed in mid-2006.	Recently reached decision point, so no evidence yet.				
The Gambia	Met.	PRFG went off track in 2002. An SMP was agreed in Feb 2006.	Slow progress and signs of slippage.	Met.	Preliminary data suggests has been met.	None specified.	Privatisation of groundnut processing plants close to completion.
Guinea	Met.	1-year SMP should be completed in 2006. Gov must still negotiate and implement PRGF for min 6 months.	Progress being made.	Met.	Met.	None specified.	

Guinea Bissau	PRSP formulation poor and slow – still in draft form since 2004.	SMP implemented since June 2005. Gov must still negotiate PRGF and implement for min of 6 months.	Slow progress.	Met.	Some progress but slow.		Good progress with demobilisation.
São Tomé and Príncipe	PRSP prepared and being implemented.	PRGF off track in 2001. New PRGF implemented since July 2005.	Good progress, most PFM triggers met.	Close to being met.	Close to being met.	None specified.	
Sierra Leone	PRSP finally finalised in 2005; implementation began mid-2005.	Previous PRGF completed in 2005. PRGF for 2006-2008 agreed in early 2006.	Progress good.	Progress being made but effort needed to raise level of girls' enrolment in schools.	Outstanding triggers close to being met.		Demobilisation triggers met; privatisation triggers met.

Annex 2
Completion Point Triggers for Recent HIPC Entrants

2.1 – Completion Point Triggers for Burundi[65]

1. PRSP

- Preparation of a full PRSP through a participatory process and its satisfactory implementation for one year, as evidenced by an Annual Progress Report that has been the subject of analysis in a Joint Staff Advisory Note.

2. Macroeconomic stability

- Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported programme.

3. Use of budget savings resulting from HIPC-related debt-service relief during the interim period

- Use of budgetary savings from debt relief in accordance with the priorities identified at the Decision Point and in the PRSP duly documented and discussed by a national Independent Oversight Committee on a semi-annual basis.

4. Public expenditure management

- Establishment of an integrated public expenditure computerized system that provides a budget monitoring and control system, in particular for poverty-related spending, and the production of at least two quarterly budget execution reports based on the new unified budget nomenclature.

5. Governance measures and the delivery of services in key sectors

- Completion for the education, health, and justice sectors of: (i) a budget tracking exercise (budget monitoring) of public spending on the delivery of pro-poor services; (ii) an evaluation by users of the quality of services provided; (iii) an evaluation by providers of constraints to effective delivery of pro-poor services; and (iv) preparation of an action plan to address problems identified.

6. Demobilization

- Execution of the National DDR [disarmament, demobilisation and reintegration] Program in line with the pace and final objectives set forth in the Letter of Demobilization Policy to the World Bank, dated 19 February 2004.

7. Structural measures:

- Tendering for sale the state holdings in a majority of coffee washing stations.

8. Social sectors

- **Education:** Increase in the gross national enrolment rate in primary schools from 74% in 2003/04 to 77% in 2006; and from 16% in 2003/04 to 18% in 2006 in secondary schools, subject to the provision that the average increase in provinces with lower than average enrolment rates in 2004 must be higher than the increase in the national rate over the same time period.

- **Health:** Increase in the national immunization rate for children of less than one year of age from 75 percent in 2004 to 85 percent in 2006, subject to the provision that the average increase in provinces with lower than average immunization rates in 2004 must be higher than the increase in the national rate over the same time period.

9. Debt management

Production of monthly external debt reports, including projections for the upcoming three months, for at least six months before the Completion Point.

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[65] IMF, 2005, *Burundi: Enhanced Initiative for Heavily Indebted Poor Countries— Decision Point Document*: http://www.imf.org/external/pubs/ft/scr/2005/cr05329.pdf

2.2: Completion Point Triggers for the Republic of Congo[66]

1. PRSP

- Preparation of a full PRSP through a participatory process and satisfactory implementation of its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the government to the staffs of IDA and the IMF.

2. Macroeconomic stability

- Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program as well as any IMF successor program.

3. **Public expenditure priorities:**

- Alignment of public spending priorities in accordance with the priorities identified in the IPRSP, and, when completed, the PRSP, reflecting emphasis on pro-poor growth.

4. **Public finance management**:

(i) Establishment of a functional classification system for government expenditures, including poverty-related expenditures, consistent with the IMF's *Government Finance Statistics* manual, and preparation of government budgets using this new classification;

(ii) Implementation of a new public investment management system to provide rigorous selection, and efficient execution and monitoring of the projects; submission of draft public investment programs to IDA for review;

(iii) Adoption and satisfactory implementation by the government of a new procurement code (that promotes transparency and competition), in line with international best practice;

(iv) Adoption by the government of a medium-term framework for sustainable management of government expenditures and revenues, with technical assistance from IDA and IMF.

5. **Governance and natural resource management**

Governance:

- Completion of a diagnostic governance and corruption study by an independent group of internationally reputed experts, assisted by a national anti-corruption committee, based on terms of reference prepared in consultation with IDA and IMF staffs. The terms of reference and composition of the national anti-corruption committee will be satisfactory to IDA and IMF staffs. Adoption by the government of an action plan, prepared in consultation with IDA and IMF staffs, to improve governance and reduce corruption, and sustained implementation of such action plan during the completion of the audits referenced in subsections 5(i) and 5(ii). Assessment of the implementation of the action plan by IDA and IMF staffs on the basis of an independent review by international experts acceptable to IDA and the IMF.

Oil sector:

(i) Assessment by IDA and IMF staffs, based on successive annual audit opinions by an independent firm of international reputation, and certified by the national anti-corruption committee, that SNPC's internal controls and accounting system are in line with international standards and best practices;

(ii) Preparation, by an independent firm of international reputation, of a diagnostic study of the practices for the commercialization of oil by SNPC [Société Nationale des Pétroles du Congo], based on terms of reference prepared in consultation with IDA and IMF staffs. Assessment by IDA and IMF staffs, based on successive audit opinions by an independent firm of international reputation, that the commercialization of oil by SNPC has been brought into line with international best practice on the basis of the recommendations of the diagnostic study, and results in competitive and fair market values to Congo for the oil sold;

(iii) Adoption and application by the government, certified by the national anti-corruption committee, during the completion of the audits referenced in 5(i) and 5(ii), of a legal text stipulating:

  - compulsory declaration, to the National Auditing Office (Cour des Comptes), by the members of the Executive Board of SNPC and those having a management mandate within SNPC and its subsidiaries, at the moment of their nomination and annually thereafter, of their participation or other interests in companies having business relations with SNPC or its subsidiaries as well as the verification and annual publication of the aforementioned declarations by the National Auditing Office (Cour des Comptes);

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[66] IMF, 2005, *Republic of Congo: Enhanced Initiative for Heavily Indebted Poor Countries—Decision Point Document*: http://www.imf.org/external/pubs/ft/scr/2006/cr06148.pdf

- divestiture by the members of the Executive Board of SNPC and by those having management responsibilities within SNPC or any of its subsidiaries of such participations and/or other interests, within a time period of 6 months after their nomination and prohibition of the taking of any interest in companies having business relations with SNPC during the period of their mandate.

Forestry sector:

- Review of forestry sector management and legislation with IDA assistance; adoption by the government of measures recommended by the review to promote competition, transparency, and sustainable development in this sector.

6. **Structural reform**:

- Review and adoption of a regulatory framework for the telecommunications sector establishing competition at the level of international gateways and the wireless local loop.

7. **Social sectors**:

- ***Education***: Implementation during 2006 of a strategy to eliminate fictitious workers from the education budget and increase teacher staff by, at least, 1,000 each year in basic education until 2007.
- ***Health***: Increase to, at least, 60% the share of generic drugs in total expenditures on drugs by the central purchasing agency.
- ***HIV/AIDS***: Increase in the number of voluntary AIDS counseling and testing centers with associated measures (staff, equipment, and awareness campaign) from 4 at present to, at least, 10 in 2006 and 15 in 2007.

i) **External debt management**:

- Publication of the quarterly external debt data and projections on a government website.
- Centralization of all information on debt, including collateralized debt, in the government's debt agency (CCA).

Annex 3: Examples of Possible Trigger Conditions Required to Reach Completion Point

Governance	Education	Health	HIV/AIDS	Structural
Establish a medium-term economic framework (MTEF) and set performance indicators for selected ministries. Adopt a governance strategy and action plan in consultation with IDA and the IMF and implement it for at least one year. Prepare/adopt an anticorruption strategy. Reform the public procurement system. Adopt a new law on public procurement. Carry out budget-tracking exercises and beneficiary assessments for education and health. Make satisfactory progress in strengthening public expenditure management to facilitate the identification and tracking of poverty-related spending. Issue annual public reports on the overall budget execution and semi-annual reports on the use of HIPC debt relief. Release to the Parliament and the public, twice a year, comprehensive budget execution reports. Submit the findings of the external audit of budgets outturns to Parliament.	Satisfactory implementation of the basic education action plan, measured by an increase in the gross primary school enrolment ratio to X%. Eliminate school fees for all pupils in all rural schools. Eliminate repetition at Grade 1; reduce the repeater rate by X%. Raise share of education sector expenditure in discretionary recurrent budget to at least X%. Raise yearly enrolment of students for teacher training and in-service training for primary teachers by X%. Build X new classrooms. Increase the gross enrolment rate to at least X% for girls and Y% for boys. Increase by at least X% the number of teachers for Basic Education. Ensure appropriate funding of a trust fund for girls' scholarships in the poorest regions. Elimination of fees for school books for all primary education students (grades 1-4).	Adopt a medium-term expenditure program for the expansion of basic health services. Adopt a monitoring and evaluation system for the health sector. Raise share of health expenditure in discretionary recurrent budget to at least X%. Increase the share of primary and secondary health care within the overall recurrent budget for health. Increase child immunization / total vaccination rates for specific diseases to X%. Ensure that at least X% of all health districts and health centres across the country are operational. Increase by at least 5% each year the number of births attended by a person trained in antenatal care. Adopt an action plan for malaria and implement in satisfactorily, measured by an increase to X% in the use of insecticide impregnated bed-nets by pregnant woman.	Make progress in implementation of the National Aids Strategy. Present a strategy plan to fight HIV/AIDS to the National Assembly. X% of all condom outlet points with condoms in stock at any given time. Continuous availability of testing kits at all blood transfusion sites. Increase the treated cases of genital ulcers to at least X per year. Decrease the prevalence of syphilis among pregnant women by X%. At least 50 percent of the population at increased risk made aware of transmission and prevention methods. At least X persons, including health professionals and staff from line ministries and civil society organizations, provided with HIV/AIDS and sexually transmitted infections education and training on prevention and basic care.	Increase access to potable water to at least X%. Increase the percentage of agricultural families equipped with ploughs. Establish a functional multi-sector regulatory agency. Pass a bill to introduce new privatization legislation. Bring to the point of sale specific SOEs or their subsidiaries. Progress in the reform of the tea / coffee sector, including privatization of at least X of the X state-owned factories / estates. Adopt a strategy to privatize the public enterprise X, [after single-buyer market is abolished]. Adopt a revised policy for mining / other sector to promote activity and attract private investment. Implement commercialisation of telecomms / other sector, including competition.

Annex 4
Instruments through which Conditionality is Applied

In addition to including economic and social policy reforms and institutional reforms set out in HIPC Decision Point documents as conditions for receiving debt cancellation, 'Completion Point triggers', these types of conditions are also imposed via what the World Bank now calls 'policy reform programmes', which are supported by 'policy-based loans'.

A.1 Conditions and Debt Relief

As detailed above, governments passing through the HIPC initiative must implement policy and institutional reforms in order to reach both Decision and Completion Point. These actions are either explicitly identified as trigger conditions, or become conditions indirectly through inclusion in the PRGF programmes, implementation of which is a trigger condition. In some cases a government might also be required to implement a World Bank policy reform programme too, although this is rarely the case to reach Completion Point.

Low Income Country (LIC) governments seeking bilateral debt relief from the Paris Club are also required to demonstrate some conformity to the policies favoured by the international financial institutions (IFIs) prior to receiving debt relief, as demonstrated by having a track record with the IMF and being on track with a current IMF programme. Where the country is not borrowing from one of the IMF instruments (see details below), this will take the form of being on track with a Policy Support Instrument (PSI), an IMF monitoring programme. In general, no specific trigger conditions are demanded.

A.2 Conditions and Policy Based Lending

The major multilateral lenders – IMF, World Bank, European Commission, African Development Bank, Inter-American Development Bank, Asian Development Bank – finance policy and institutional reform programmes, as do many bilateral donors. Each has its own lending programmes and thus each imposes its own conditions.

IMF
The IMF has a range of lending instruments, all of which are accompanied by policy conditionality. Low income countries are only able to borrow on concessional terms, from the Poverty Reduction and Growth Facility, the Exogenous Shocks Facility or through 'emergency assistance', which is available to countries hit by natural disasters or emerging from conflict.

The IMF also monitors macroeconomic policies and performance via Staff Monitored Programmes (SMPs) and the recently introduced Policy Support Instrument (PSI), without these being attached to any lending. Since no money is provided, the reforms in the programmes are not conditions as such because they do not trigger the disbursement of IMF money. However, there are still 'rewards' attached, in that staying on track with an SMP may lead to IMF support through a PRGF, and IMF approval under the PSI may be taken as a trigger for other (often bilateral) donors to release loans or debt relief. The expectation is therefore that the policies included in these programmes will be implemented, and there is pressure on the governments concerned to comply.

SMPs, which specify both macroeconomic and structural conditions but focus on the former, are negotiated with governments who have previously had poor relations with the IMF but want to establish a track record with the IMF with a view to negotiating a PRGF programme. Staying on track with the conditions indicates that the government is committed to pursuing IMF-approved policies.

PSIs are similar to SMPs to the extent that they are also monitored by the IMF, but no finance is provided to support them and they signal to donors and other interested stakeholders that a government is on track with a macroeconomic agenda which has IMF approval. However, here the likeness ends. Whilst SMPs are demanded of a government to establish a track record and normalise its relations with the IMF, a country with a PSI is considered to have a stable macroeconomic position and good track record of reform. So far, only Nigerian and

Uganda have negotiated a PSI. It would appear from Uganda's example that the conditions contained in a PSI are more or less the same as the conditions in a PRGF programme.[67]

World Bank[68]

The World Bank's policy based loans for LICs are financed from the International Development Association (IDA). Loans/grants can be provided in single or multiple tranches, which may be fixed or floating, and are usually provided in support of a series of three one-year programmes or a multi-year programme.[69] The World Bank's policy-based loans have many different names including Poverty Reduction Support Credits (PRSCs), Structural Adjustment Credits, Sector Adjustment Credits and Adaptable Programme Loans.

Policy-based loans can support 'economy wide' or 'sector' reform programmes. Economy wide programmes provide money directly into the government's overall budget and the reforms attached to them can focus on many aspects of economic and social policy and public sector management. A typical policy programme will contain conditions pertaining to the macroeconomy, public sector governance, structural reforms and the social sectors.

Sector programmes target money to a particular sector – such as the transport, agricultural or health sector – and the conditions attached to the loans pertain to that sector.

The World Bank "generally discourages" the use of conditions with investment loans which are provided to implement specific projects, such as building a power station or providing sanitation and sewage services. However, "investment projects may sometimes include agreements on particular policy undertakings that are important for achieving the project's objectives."[70] Using the example of a power station project, the government might be required to agree to a particular formula for determining energy prices.

Policy conditions are also implicitly imposed on LIC governments via the World Bank's mechanism for allocating resources from IDA, which are allocated according to how well a country scores against a set of policy criteria (see below for a list of these criteria). These criteria, which are the basis of the Country Policy and Institutional Assessment (CPIA), reflect what the World Bank perceives to be good economic policy, although they have been the subject of much criticism from civil society.[71] Thus governments have an incentive to implement the World Bank's preferred set of policies in order to access more resources.

Bilateral Donors

Bilateral donors attach conditions to their bilateral programmes (which only they financially support) and to programmes jointly supported by a group of donors. On the whole, bilateral donors do not make their bilateral country programmes public, so the conditions attached to them are usually not known.

Multi-donor Programmes

Recently there has been a move by some bilateral donors, such as the Dutch, the UK, and the Nordic governments, to cooperate with multilateral donors, principally the EU and the World Bank, to finance joint programmes. Not only are resources pooled but a common set of conditions is also applied. Multi-donor programmes may support the entire economy, in which case budget support is provided, for example, through a World Bank PRSC, or they may support a sector via a Sector Wide Programme (SWAp). The donors also agree to a common set of conditions.

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[67] See IMF, 2006, *Uganda: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, and Request for a Policy Support Instrument—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Uganda*: http://www.imf.org/external/pubs/ft/scr/2006/cr0643.pdf

[68] The regional multilateral development banks tend to follow the lead set by the World Bank in terms of how they deliver development loans. In general, they tend to fund more projects and less structural adjustment.

[69] Conditions on a fixed tranche must be implemented within a particular time period in order for the tranche of lending to be released, whereas conditions on floating tranches can be implemented at any time and the tranche is released once the conditions are met.

[70] World Bank, 2005, *Review of World Bank Conditions,* p6: http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/webConditionssept05.pdf

[71] See eg CCFD, 2004, *La dictature de la 'bonne gouvernance'*, Merckaert J.

The conditions attached to a PRSC are supposed to be drawn from a government's Poverty Reduction Strategy Paper (PRSP) and are negotiated between the donors and the government (usually the Finance Ministry). Which reforms are included as conditions will depend on the priorities of each donor to the PRSC.[72]

Donors funding a SWAp typically (but not necessarily) pool their individual resources into a 'basket'. This basket of funds is then used to finance a programme developed by the government in consultation with its donors. The programme will focus on a particular sector and it might cover the whole sector, such as education, or a sub-sector, such as primary education. The conditions attached to the SWAp basket funds are negotiated amongst the group of donors and the relevant ministry and relate directly to the sector programme.

Criteria for World Bank's Country Policy and Institutional Assessment:

A. Economic Management
1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

B. Structural Policies
4. Trade
5. Financial Sector
6. Business Regulatory Environment

C. Policies for Social Inclusion/Equity
7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labour
11. Policies and Institutions for Environmental Sustainability

D. Public Sector Management and Institutions
12. Property Rights and Rule-Based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

[72] It is often perceived that in fact PRSPs are a conglomeration of existing donor conditions rather than PRSPs informing donor conditions.

Annex 5
Acronyms

BM	Benchmark [non-binding conditions which countries should meet during a programme]
CPIA	Country Policy and Institutional Assessment
(E)CP	(Enhanced) Completion Point [in HIPC]
(E)DP	(Enhanced) Decision Point [in HIPC]
EPCA	Emergency Post-Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility [former lending instrument of IMF]
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country (initiative)
IDA	International Development Association [concessional lending arm of World Bank]
IFI	International Financial Institutions
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
LIC	Low Income Country
M&E	Monitoring & evaluation
MTEF	Medium-term Economic Framework
PC	Prior Condition (aka Prior Action) [condition that must be fulfilled before funds to be lent are released]
PFM	Public Financial Management
PRGF	Poverty Reduction and Growth Facility [lending instrument of IMF]
PSI	Policy Support Instrument [monitoring instrument of IMF]
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit [lending instrument of World Bank]
SAC	Structural Adjustment Credit [lending instrument of World Bank]
SMP	Staff-Monitored Programme [monitoring instrument of IMF]
SOEs	State-owned enterprises
STMP	Short-Term Macroeconomic Programme
SWAp	Sector Wide Programme

Jubilee Debt Campaign works for full cancellation of unjust and unpayable poor country debts, by fair and transparent means. It is a coalition of over 70 national organisations and 100 local and regional groups, as well as thousands of individuals across the UK.

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