

Appendix 8. PRSP/HIPC Performance as of April 2003⁴⁷

Congo, Democratic Rep. of

PRSP Status: The I-PRSP was completed in June 2002 and completion of a full PRSP is expected in early 2005. Social sector spending is targeted to increase from 7 percent of primary expenditure (0.5 percent of GDP) in 2002 to about 16 percent in 2003 (about 2 percent of GDP), to remedy the poor quality of, and access to, social services.

Policy Performance: A PRGF-supported program was approved in June 2002 after successful implementation of an IMF staff monitored program. Progress continues with an economic reform program under which the public finances have been strengthened, the cycle of hyperinflation and currency depreciation has been broken, major economic distortions are being removed, and significant improvements have been made in the judiciary and regulatory environment. Important reforms are also under way in the forestry, mining, and public enterprise sectors.

HIPC Status: The preliminary HIPC document was considered in June 2002. Arrangements have been put in place to clear arrears to multilateral creditors, and for the IMF and World Bank this was done in June/July 2002. The Paris Club granted a Naples flow rescheduling for nearly US\$9 billion of arrears and debt service coming due during the PRGF period. The first review under the PRGF should be completed by end-March and the decision point could be reached shortly thereafter. The timing of a possible three-year PRGF arrangement and the HIPC decision point will depend on progress in the implementation of the new SMP with a focus on improved fiscal performance, progress in transparency in the oil sector, and the normalization of relations with external creditors.

Malawi

PRSP Status: The PRSP launched in April 2002 articulates a well-developed and sound strategy. There are detailed action plans to generate growth, improve social sector outcomes, protect the vulnerable, and improve governance. The resources made available from interim debt relief have

⁴⁷ Sources: Citations from Appendix II, World Bank, 2003a.

been used to fund an expansion in pro-poor spending programs, including the health and education expenditures identified in the PRSP as primarily benefiting the poor. Social expenditures, more broadly defined, for 2002 are estimated at 11 percent of GDP.

Policy Performance: Malawi's PRGF program went off-track soon after its approval in December 2000, mostly due to large slippages in fiscal policy. The first review could be completed by end-July, 2003. The World Bank has 10 active credits in Malawi, of which three projects (Environment Management, Fiscal Restructuring and Deregulation Project III TA, and Privatization and Utility Reform) currently have an unsatisfactory rating. Malawi has made good progress toward the fulfillment of HIPC completion point triggers. However, there is need to make substantial progress on the maintenance of macro stability. The completion point could be reached by the end of 2003 if Malawi demonstrates six months of good performance under the PRGF.

Creditor Participation: Malawi is receiving interim relief under the enhanced HIPC Initiative from IDA, AfDB, EU/EIB, and the Paris Club. IMF relief for 2002 is pending the conclusion of the first PRGF review. With respect to non-Paris Club creditors, South Africa has written off its debt; no agreement has yet been reached with Taiwan Province of China.

Mozambique

PRSP Status: The PRSP, which was endorsed by the Boards of the Bank and the Fund in September 2001, has been central in guiding the government's efforts to improve social welfare conditions and track poverty-reducing expenditures. HIPC-financed spending is being allocated to priority areas that have been identified in the PRSP (PARPA). The PARPA priority sectors are in education, health, agriculture and rural development, basic infrastructure, good governance, and macroeconomic and financial management. Recent developments in social spending continue to be favorable with such expenditure reaching 9 percent of GDP in 2002 and expected to stay at around that level for the 2002-05 period.

Policy Performance: The fourth review under the PRGF arrangement was satisfactorily completed in June 2002. All quantitative and structural performance criteria and benchmarks were observed, except for a benchmark on reserve money. The macroeconomic outlook for Mozambique remains positive. Preliminary estimates indicate that GDP grew in 2002 by about 12 percent, while inflation stood at 9.1 percent, well below the level observed in 2001 (21.9 percent). For years 2003-04, it is expected that GDP growth would stabilize at around 9 percent per year. The HIPC completion point was reached in September 2001.

Creditor Participation: The completion point was reached in September 2001. Creditors holding about 88 percent of Mozambique's debt are providing debt relief. Several non-Paris Club official bilateral creditors have yet to respond to letters sent by the Mozambican authorities to begin negotiations for bilateral debt relief agreements on enhanced HIPC terms. Positive responses had been obtained from India and in principle from Libya, but further negotiations are needed to finalize the agreements. The Mozambican authorities have indicated that relief on non-Paris Club official debt has been completed with China, Kuwait, and South Africa.

Tanzania

PRSP Status: The poverty reduction strategy enjoys broad support and ownership. By the time the current PRGF expires, Tanzania is expected to have prepared two annual PRSP progress reports. Expenditure on health and education has been rising since fiscal year 1999/00. New education, agriculture, and rural development strategies are high-priority areas of the PRSP.

Policy performance: The Fund Board completed the fifth review under the PRGF arrangement in November 2002. The current PRGF, originally due to expire in early 2003, was extended until end-June 2003 to allow time for the final review to be completed. While Tanzania has achieved commendable progress in implementing macroeconomic and structural reforms in the last seven years, the country still faces a substantial reform agenda and other policy challenges that will require continued Fund engagement. The exit from Fund financial support may also be constrained by the linkage of donor support to a Fund-supported program. A new low access PRGF arrangement—largely focusing on ongoing structural reforms and second-generation reforms—may be envisaged. The focus of the current PRGF is on consolidating macroeconomic stability and achieving sustained high economic growth and poverty reduction through improvements in revenue mobilization, public financial management, promotion of private investment and financial intermediation. Notwithstanding delays in implementing some structural reforms (e.g., clearance of audited arrears, and use of land as a collateral for bank loans), progress under the PRGF has been satisfactory.

Creditor Participation: The completion point was reached in November 2001. HIPC relief amounted to 1.4 percent of GDP in 2001/02 and is expected to account for 1.3 percent of GDP in 2002/03. Tanzania has received financing assurances from creditors holding around 90 percent of total debt, with the exception of non-Paris Club creditors. Specifically, it has received assistance from IDA, the IMF (which together account for more than 40 percent), Paris Club creditors (accounting for another 40 percent), the AfDB (6 percent), and other multilateral creditors (4 percent). Among the non-Paris Club creditors contacted by the authorities, only Kuwait has confirmed relief on HIPC terms.

Zambia

PRSP Status: A full PRSP was received in April 2002 and considered by the Bank and Fund Boards. It aims to promote growth and diversification in production and exports, improve delivery of social services, and foster policies for HIV/AIDS, gender and the environment. Poverty-reducing spending was lower than programmed due to initial difficulties in establishing an accounting framework and lack of implementation capacity. Priority poverty-reducing programs amounted to 1.1 percent of GDP in 2000, 2.1 percent in 2001, and is projected to have been 2.2 percent of GDP in 2002.

Policy Performance: A fifth review of the PRGF was successfully completed in November 2002, notwithstanding capacity constraints and an adverse external environment, particularly in the copper sector. The government's financial policies in 2002 allowed for a reorientation of public

expenditure toward the social sectors. Despite a wage bill overrun which is being corrected, the overall fiscal outturn for 2002 is expected to be on track. With regard to the floating completion point triggers, progress is being made to divest a controlling share of ZNCB and ZESCO. Triggers in the health sector (including on HIV/AIDS) have been fully or partially implemented. While triggers in the education sector (budget outcome, student retention) are not yet achieved, corrective actions are being taken. The completion point is expected in December 2003.

Creditor Participation: Financing assurances have been received from creditors holding around 97 percent of total debt. IDA, the IMF, the AfDB, EU, and the Paris Club have provided interim relief. So far, Bulgaria, China, Iraq, Romania, and Saudi Arabia have not agreed to provide HIPC relief.