



The 9th Meeting of HIPC Finance Ministers took place in Dubai at the BWI Annual Meetings on 20th September, under the joint presidency of Donald Kaberuka of Rwanda and Javier Comboni of Bolivia. Ministers also represented HIPCs at a seminar on Debt Sustainability in Low-Income Countries during which they submitted formal comments to the BWIs on this issue, and held discussions with BWI senior management. They issued the following press release in a press conference attended by 30 journalists:

### ***1) HIPC Initiative***

Too many creditors are still not participating in the HIPC Initiative. However, the international community are neither presenting a clear analysis of the effects of this non-participation nor helping HIPCs sufficiently to ensure that creditors do participate.

- Every HIPC Board paper should specify exactly the impact of creditor non-participation on the country's debt sustainability.
- The international community should immediately establish a technical assistance facility to help countries avoid and defend lawsuits, and a trust fund to clear all debts among low-income heavily indebted countries, and widen the use of the IDA commercial debt reduction facility.

The current BWI review of debt sustainability in low-income countries suggests that domestic and private sector external debt should be analysed as well as public sector external debt. Ministers urge that all future PRGF documents should analyse these debts, and donors should give increased support to monitoring, analysing and reducing them.

The review also indicates that debt sustainability should be analysed case-by-case depending on a country's needs to finance the MDGs. Yet Ministers are increasingly finding themselves forced to reduce MDG spending, to avoid surpassing HIPC debt sustainability thresholds. They urge that the debt service to budget revenue ratio should be the key criterion used to judge sustainability after HIPC completion point and that, if this is below 10%, PV ratios should be treated as secondary provided they are kept within reasonable bounds.

Recent BWI Board discussions have agreed to continue to examine whether 100% debt cancellations granted by some OECD governments should be additional to HIPC, providing an extra US\$1.2 billion of relief. Ministers urge the international community to support this extra funding.

HIPCs are entitled to 'topping up' of their relief at completion point if they have suffered external shocks that have changed their circumstances. HIPC Ministers are clear that these shocks should include international interest rate and exchange rate changes, because they increase the PV of debt overhang and reduce future growth and investment. Ministers reject any attempt to exclude such shocks from reasons for topping up.

### ***2) External Shocks***

There has been an active discussion recently on how to deal with external shocks to low-income countries' growth. But many of these 'shocks' are predictable and recurrent, and Ministers urge that all foreseeable shocks should be included in the baseline forecasts for PRGF. Suggested solutions to shocks have included commodity hedging facilities and for lending in domestic currencies. Ministers believe these do not provide adequate solutions to most shocks they face. The most comprehensive response would be to provide immediately disbursing contingency finance as floating tranches in donor budget support grants and IMF/World Bank loans and grants.

### ***3) Poverty Reduction Strategies***

There has been little movement to make macroeconomic frameworks in IMF programmes more flexible. They remain insufficiently growth-oriented, focussing excessively on reducing inflation below 5%. Poverty spending has not been allowed to rise in line with the long-term grants available to fund budget deficits. Several countries have had to reduce growth targets and anti-poverty spending, thereby abandoning the MDGs even when adequate financing is available. Ministers urge immediate action to ensure all macroeconomic frameworks target the MDGs, and to provide independent resources to HIPCs to conduct Poverty and Social Impact Analysis of macroeconomic frameworks.

Ministers note also that many PRSPs have placed insufficient emphasis on gender issues, and especially on the girls' education MDG for 2005.

A recent IMF paper has suggested that the Fund should reduce its lending and move towards surveillance mechanisms for economically stable low-income countries. Ministers endorse this and urge the IMF Board to define clear operational guidelines for this to occur in all such countries as soon as possible. Reducing lending levels should also allow the Fund to increase the concessionality of its lending to low-income countries in the direction of IDA terms, reducing their debt burden.

### ***4) Financing the MDGs***

A recent World Bank paper suggests some African countries cannot absorb all the additional financing needed to reach the MDGs. Ministers reject this because many countries have dramatically increased absorptive capacity in a short period. They urge the international community to focus all its efforts on increasing absorptive capacity by studying and disseminating best practices in low-income countries.

Three years after adopting the MDGs, most countries and the international institutions still have no clear idea of their costs. Ministers urge that every PRGF Board paper should cost these goals and press donors to mobilise the finance needed to attain them. They also regret the lack of research and practical tools that they can use to analyse, project and cost their progress to the MDGs and urge rapid acceleration of work in this area.

Ministers endorse the UK proposal for an International Financing Facility. While insisting that the money it provides should be additional, in grant form and of high quality (i.e. as budget support), they urge other G8 countries to overcome their reservations and fund the IFF as soon as possible.

One of the key MDGs is reforming donor procedures to provide high-quality money. Ministers are establishing their own systems to evaluate the quality of donor aid. They request that the DAC and the IFIs conduct an urgent frank review of whether individual donors are living up to recent pledges of aid quantity and quality increases. This review should be presented at next year's Spring Meetings.