



IMPLEMENTING THE HIPC INITIATIVE:

DECLARATION OF THE 2ND HIPC MINISTERIAL MEETING

Geneva, 7 June 2000

Ministers congratulated the international community and the Bretton Woods Institutions on the modifications to the eligibility criteria for the Initiative, on their efforts to accelerate relief and to mobilise financing for the Enhanced Initiative, on the strengthened link between debt relief and poverty reduction, and on efforts by various institutions to enhance capacity in HIPC countries.

Nevertheless, they made the following suggestions for further improvement:

1. ELIGIBILITY CRITERIA

Ministers recommended that the eligibility criteria for the Enhanced Initiative be more tailored to HIPC needs in the following ways:

- Criteria should ensure that the main focus of relief is on budget liquidity, debt service to revenue ratios and additional resources for poverty reduction, especially between decision point and completion point. They urged that interim debt relief be based directly on fiscal liquidity indicators and financing needs for poverty reduction.
- All debts which creditors have not agreed to cancel should be included in the DSA and relief needs, and not defined as “passive”.
- Exports should be defined to exclude transit reexports, and calculation methods should take full account of country-specific fluctuations in export proceeds.
- The sub-criteria on export/GDP and revenue/GDP are too restrictive, especially for countries with large informal sectors which are difficult to tax or record exports, and should be relaxed for some countries.
- DSAs should take into account the domestic debt burden and find solutions outside the framework of the HIPC Initiative.

2. REQUIRED FINANCING OF HIPC DEBT RELIEF

Ministers urged all creditors to accelerate their contributions to HIPC financing in the following ways:

- Virtually all creditors need to accelerate their relief and provide the maximum amounts in the early years (after decision and completion points).
- All Paris Club creditors need to provide the maximum bilateral relief in line with the spirit of the Enhanced Initiative by applying current market-oriented interest rates, and by minimising fees and eliminating penalty interest rates.
- HIPCs need more accurate information on the true status and design of cancellation intentions by all major creditors, particularly on:
 - cancellation modalities (especially the debt which is covered – ODA and non-ODA, pre and post-cut-off date, “special” debts)
 - timing of the cancellations – at decision or completion points ?

- whether all cancellations are genuine – for example, conversions for projects implemented by NGOs may have budget implications, and refinancing of debt service with grants may be cumbersome.
- Ministers congratulated the Paris Club on its decision to treat post cut-off date debt where necessary to attain the sustainability ratios. They urged the Club to continue its past practices of deferral of post-cut-off date service and moratorium interest (especially for countries emerging from civil strife and natural disasters), even between decision and completion points, where country liquidity needs justify this.
- Ministers urged all Paris Club creditors to include all “special” debts (postal debt, hospital debt, monetary debt) in the Paris Club treatment.
- Ministers noted the feeling of exclusion expressed by non-OECD creditors from the design and implementation of Initiative. They appreciated the recent efforts of the Bretton Woods Institutions to increase consultation with such creditors, and urged them to continue such efforts, particularly through creditor country Executive Directors. However, they also urged that such consultations should be formalised by the inclusion of all such creditors’ pledges of debt relief either in Paris Club discussions or in Consultative Group or Round Table meetings. They also urged that solutions be designed which are tailored to the different financial situations of creditor countries (notably HIPCs which are creditors).
- Ministers reminded the international community to maintain the financing of solutions to multilateral arrears problems, and flows of programme aid (where possible through Multilateral Debt Funds) to avoid future arrears for countries with severe liquidity problems;
- Ministers congratulated the IMF and World Bank on the rapid mobilisation of most of their own short-term financing needs for the Initiative, and urged the international community (notably the US Congress) to finalise these as soon as possible.
- Ministers raised concerns about the potential long-term financing gap for multilateral institutions’ contributions to the Enhanced HIPC Initiative, and urged the international community to ensure long-term transparent co-ordination on this issue.
- Ministers stressed the need to frontload relief on multilateral debt, especially by the Regional Development Banks. They endorsed the idea of providing a maximum of 80% service reduction proposed in May by AfDB management. They urged the Inter-American Development Bank to consider the same level of up-front service reduction during the first 3-5 years.
- Ministers requested much more detailed and transparent information on the long-term exact modalities for relief by the smaller sub-regional institutions.

3. NEW FINANCING NEEDS

- Ministers warned against the risk of repeating earlier underfinanced Poverty Reduction Programmes and stressed that appropriate extra new financing over a long-term horizon was essential to complement debt relief.
- Ministers stressed the need for stable and predictable commitments of resources for poverty reduction and budgetary planning.

- Ministers therefore urged all contributing institutions to ensure genuine additionality of their contributions, and not to offset debt relief by cuts in their new flows.
- Ministers urged all donors to avoid cutting programme aid because they believe that the debt problem of the HIPC has been solved.
- Ministers strongly opposed threats of cuts in new loans for countries going for the HIPC Initiative by some creditors (e.g. Japan), which is contrary to the spirit of the Cologne summit.
- Ministers stressed the need for creditors and debtors to maximise concessional (IDA-only, grants first) financing, especially after the completion point.
- Ministers urged all bilaterals and multilaterals to tailor their aid programmes to support nationally designed Poverty Reduction Programmes, allowing HIPCs to take the lead in aid mobilisation and management.
- Ministers urged the international community to continue to fulfil the special needs of certain countries for new aid for reconstruction or demobilisation after civil strife or natural disasters.
- Ministers urged the Bretton Woods Institutions to enhance their efforts to ensure that DSA discussions are genuinely tripartite from the start of the process, to avoid later problems and delays.
- Ministers urged the Bretton Woods Institutions to accelerate the preparation of HIPC country documents and Debt Sustainability Analyses. They cautioned against delay due to doubts about funding contributions, lack of staff continuity in the Bretton Woods Institutions, mission proliferation.

4. PRSP PROCESS

- Ministers described the processes underway to revise past poverty reduction policies and produce PRSPs. Ministers reaffirmed their ownership of the PRSP process. These processes are far-reaching, and go beyond Ministers of Finance. Some countries have set up several thematic groups.
- The PRSP process raises expectations amongst all sectors of society. This puts the government in an exposed, high-risk position. These expectations have to be managed. It is important that donors' resources are available early, to meet some of the expectations.
- Macro policy and fiscal discipline remains very important, because the poor need purchasing power. The PRSP should include issues such as growth, employment, savings and inflation – as well as infrastructure.
- Planning and budgeting is very difficult when donor resources in general, and HIPC relief in particular, are uncertain. Predictable amounts and reliable timing are essential.
- The information needs of a PRSP are high. HIPCs would welcome additional resources to collect, aggregate and analyse different kinds of data.
- Consultation with civil society is proving very valuable. Many countries have a tradition of participative decision making processes. It is raising a number of issues:
 - the definition of civil society varies from country to country;

- the diversity, lack of co-ordination and sometimes weakness of civil society organisation;
 - the loudest voices are not always the most representative;
 - civil society should as far as possible be involved in implementing the PRSP, especially in the monitoring process, and not just the design.
- The Bretton Woods Institutions (BWIs) do not pay enough attention to existing poverty reduction policies – often generated with UNDP support and already discussed with donors. They may need adding to and revising, but not redo the whole process.
 - Experience with negotiations with the BWIs indicates that they are trying to add conditions to the already far too many in existing PRGF. There need to be few, clear and realistic conditions, based on things that governments can actually control.
 - The time the BWIs assume to produce PRSP documents might not be sufficient. This should not be allowed to delay debt relief and decision points.
 - Donor co-ordination is essential -both amongst them and with government. One model in use is for the HIPC government to establish a donor co-ordination group which accompanies the process along the lines of a Poverty Action Fund.
 - PRSPs should take into account the decentralised levels and the need to build on decentralised schemes for appropriate implementation since poverty is rather in rural and remote areas.

5. HIPC CAPACITY BUILDING

The HIPC Ministers addressed the issues of capacity building needs for a full implementation of the Enhanced HIPC initiative, as well as the related sound macro-economic management and development of poverty reduction strategies.

The Ministers were unanimous as to the central importance to the HIPC's future development of capacity building. All were concerned to achieve a degree of sustainable institutional stability, knowledge and capacity which would enable them to carry out debt management, macro-economic forecasting and control, and poverty reduction programmes by themselves, without depending on external technical assistance.

The Ministers noted:

- the advantages and desirability of sharing regional capacity, which has been built up by training and experience in many countries;
- the desirability of pooling resources, conducting study visits to neighbouring countries, and bringing neighbouring country expertise into the process;
- the desirability of international actors also working with regional institutions to transfer skills and responsibilities and to strengthen resources their knowledge of international best practices.

The Ministers pointed out:

- the failure of many capacity building programmes to develop autonomous indigenous capacity on a sustainable basis;
- that without such capacity, national development is steered by foreign expertise and programmes are dictated by partners, and national and local ownership can disappear.

The Ministers noted:

- that foreign actors – including those who play the key parts in setting conditions and benchmarks, and evaluating programmes and their success – do not fully co-ordinate among themselves their demands and conditionalities. This has led in many cases to one set of actors rejecting the work done with collaboration from others, forcing the country to start again;
- the importance of improved co-ordination between donors and financiers;
- the central importance of building the HIPCs' own capacity in order for them to take a leading role in this co-ordination.

The Ministers concurred in the need for increased capacity, in particular in the following seven areas:

- institutional development around public finance and debt management;
- basic debt management: recording, payments and disbursements;
- debt analysis and design and execution of debt strategies;
- renegotiation of existing debt;
- new financing and borrowing policy (loans, grants and private capital flows);
- macroeconomic data and forecasting;
- elaboration of realistic poverty reduction strategies.

They underlined:

- the fundamental importance of having reliable basic economic data and up-to-date and acceptable economic modelling programmes;
- the necessity to upgrade and improve statistical data-gathering and analysis capacity in HIPCs, often including reform and development of statistical offices;
- the need for sustainable national capacity to use and maintain economic models;
- the need for civil society partners to participate in gathering and analysing statistics and to be sensitised to the need for reliable statistical information.

They expressed some frustration as to:

- problems with the installation and maintenance of debt recording systems, and
- the lack of clarity as to which economic modelling and debt sustainability analysis softwares are currently being used by the BWI's.

They stressed the great need for development of capacity for negotiation with the various actors in the debt and development field – Paris and non-Paris Club creditors, financial institutions, donors, and national actors.

The Ministers referred approvingly to the work of the CBP in the debt strategy area. Some HIPCs still need reliable strategy-building software and some felt that they still were in need of more advanced training in software they have already acquired. They also expressed the need for help in designing a strategy on with domestic debt.

The Ministers underlined the need for capacity building which:

- is undertaken from an holistic perspective, so as to ensure the building of institutions and systems for debt management;
- involves all necessary national actors at all levels, including the civil society, sector ministries and decentralised structures;
- trains together teams of debt managers, macroeconomists and those responsible for poverty reduction on debt strategy and its macro/poverty links;
- focuses especially on actors whose task is to co-ordinate and manage large-scale processes – such as the drafting of a PRS – to receive capacity building for this purpose.

The Ministers expressed the need for capacity building as regards how to finance development sustainably after debt reduction. A major area of concern is how to mobilise concessional finance that meets national development needs but remains sustainable over the long term. Linked to this is the need to improve procedures and networks for monitoring disbursements and repayment schedules, and understanding of donor procedures and priorities. They also indicated the need to develop and use Medium-Term Expenditure Frameworks.

The Ministers also stated:

- that capacity building was needed in the field of sector budgeting and sector programme development, which have introduced a number of new actors, principles and processes into financial management;
- that all actors need increased capacity in the development, implementation and monitoring of poverty reduction strategies and programmes.

They stated that co-ordination and sequencing in the area of capacity building itself is becoming more and more necessary, in order to avoid duplications, gaps and incoherence.

Finally, the Ministers pointed out that the techniques, instruments and procedures involved in the debt area are becoming more and more sophisticated and that this will entail the need for continuous and flexible capacity building.