



FINANCING POVERTY REDUCTION BEYOND HIPC II:

Declaration of the 5th HIPC Ministerial Meeting
(1st Regional Meeting for Eastern and Southern Africa)

Maputo, 21 November 2001

The HIPC Finance Ministers' Forum met for the fifth time on 21 November 2001 in Maputo. It was hosted by the Government of Mozambique and organised by MEFMI, DRI and the Government of Sweden. All eight regional HIPCs were represented at Ministerial level. Ministers agreed on a "Maputo Declaration" which was subsequently validated through consultations with 25 other HIPC Ministers. They also affirmed their intent to participate actively (and wherever possible in coordination) in on-going reviews by Bretton Woods Institutions of the HIPC Initiative, PRSPs, PRGF and conditionality.

Ministers stressed their own commitment to the following measures:

- full participation in the HIPC process and debt sustainability analyses;
- maximising their own efforts to achieve full creditor participation in the Initiative;
- designing and implementing poverty reduction strategies with full popular participation;
- mobilising external financing and national resources for poverty reduction only in ways which ensure genuine long-term debt sustainability and financial market development;
- spending debt relief proceeds productively and transparently on poverty reduction; and
- establishing institutional structures and other prerequisites for successful capacity-building.

They urged the international community to commit itself to joining them in a partnership to halve poverty in their countries by 2015. To achieve this goal, they reiterated the bulk of the joint recommendations made at their London meeting in June, on which the international community has not made much progress. Among these, they identified those problems which require the most urgent solutions:

1. ***Accelerating Country Progress under HIPC II.*** Implementation must be dramatically accelerated, for pre-decision and pre-completion point countries, to reverse a sharp slowing of progress in 2001. This applies with equal force to HIPCs pre-decision point and between decision and completion points. It will require much more streamlining of conditionality in PRGFs and PRSCs, maximum credit for past and current track records, avoidance of new conditions in mid-programme, and predictable, transparent guidelines on compliance and reporting. Post-conflict countries need special efforts, as well as steps to clear their arrears rapidly, and rapid increased in aid and capacity-building assistance to speed reconstruction.

2. ***Combating External Shocks.*** External shocks (including conflicts in neighbouring countries and refugees) and the global recession run a major risk of derailing the HIPC Initiative and poverty reduction, and urgent measures are needed to combat them. A range of measures was proposed in London. In Maputo Ministers stressed the need to assess comprehensively all HIPCs' debt sustainability every year between decision and completion points, and thereafter, and to provide immediate relief to compensate any unsustainability. Ministers were alarmed that the "safety margin" originally provided by relief beyond Cologne Terms which reduced debt ratios well below HIPC thresholds, has been abandoned in reassessing debt sustainability at completion point. They urged the international community to revert to aiming well below HIPC thresholds, to ensure genuine long-term sustainability.

3. ***Monitoring and Reducing Domestic and Private Sector Debt.*** In spite of HIPC government efforts at fiscal control and financial sector reform, domestic debt problems are severely damaging growth prospects, private sectors, government finances, poverty reduction spending and therefore the sustainability of external debt in many HIPCs. The international community needs to assign top priority to solving these problems, and HIPCs will themselves convene a high-level technical meeting in 2002 to discuss best practices. Private sector debt is also becoming a significant burden for some HIPCs, raising foreign exchange risks. As a result,

all future debt sustainability analyses should include domestic and private sector debt, to provide a picture of total national debt sustainability and its potential effects on the PRSP.

4. ***Increasing and Frontloading Relief.*** Ministers urged all creditor governments to follow the lead of some G8 members by holding debt service payments in trust for countries which are pre-decision points, cancelling 100% of service from decision point and cancelling 100% of stock at completion point, and moving the cut-off date or cancelling post cut-off date debt where necessary. They also urged multilateral creditors to provide interim relief on all (including non-concessional) loans before the completion point, and to cancel 100% of multilateral debt at completion point, and to use more of their own funds for relief in order to reduce diversion of bilateral aid and maximise the additionality of all debt relief.

5. ***Streamlining and Facilitating Debt Relief Negotiations.*** Ministers stressed that HIPC-related negotiations are placing huge burdens on their officials, sometimes with little result. They urged the international community to streamline debt renegotiations, and to accelerate the implementation of agreements on interim relief by all creditors. Some creditors – notably non-Paris Club governments and commercial creditors - are not providing relief as promised, undermining debt sustainability. The international community should convene a conference between HIPCs, international financial institutions, and non-OECD and other bilateral creditors, in order to agree mechanisms for ensuring relief, using the IDA buyback facility, HIPC Trust Fund or other resources. They should also provide legal, political and financial support to HIPCs in resisting lawsuits by commercial creditors, especially those whose arbitration is conducted by international organisations, and integrating mechanisms to prevent such legal threats into discussions on international bankruptcy law.

6. ***Mobilising New External Financing.*** HIPC relief will be woefully insufficient to reach the Millennium Development Goals. Ministers urged the international community to quantify MDG financing needs by the time of the FFD conference, and to redouble efforts to mobilise and encourage all types of external and domestic financing. They committed themselves to tight controls over non-concessional borrowing where this is necessary to maintain long-term debt sustainability, but urged the international community therefore to increase aid through concessional loans and grants, to reach 0.7% of GNP rapidly. They reiterated their London recommendations on enhancing the quality of aid, and noted that there had been considerable progress on budget support, untying, procurement harmonisation, and focussing on productive projects. However, they stressed the importance of disbursing commitments rapidly to avoid disrupting poverty spending, and the need to empower HIPCs themselves to decide their own financing preferences

7. ***Mobilising National Resources for Poverty Reduction.*** Ministers also reiterated their London commitments to accelerate their efforts to mobilise national resources for poverty reduction, notably budget revenue, non-debt private sector flows (especially FDI). They congratulated the international community on some recent moves to free market access for least developed countries, but urged more action. They also requested more assistance for export diversification in HIPCs, to avoid cumulative downward production effects on commodity prices, for intra-regional trade through developing country initiatives, and for financial sector reform to be reoriented to promoting local investment and savings.

8. ***More Flexible Poverty Reduction Strategies and Funding.*** Ministers reaffirmed their strong commitment to leading the fight against poverty, and the major progress made in preparing PRSPs since 1999. However, they urged donors and international organisations to:

- allow far more scope to tailor poverty reduction strategies and their funding to country circumstances and national priorities, particularly in designing pro-poor growth paths focussing on rural economies, and including more scope for spending on post-conflict reconstruction and combating the HIV/AIDS epidemic;
- provide maximum flexibility in PRGF programmes, notably in loosening fiscal targets to allow increased spending on poverty reduction, and in other macroeconomic and structural targets;
- show more commitment to supporting the priorities identified by HIPC people through existing national participatory and decentralisation processes, rather than imposing external priorities or participatory processes;
- ensure maximum effectiveness in the use of domestic and external funds for poverty reduction spending priorities by encouraging all donors to support PRSPs; and
- accelerate efforts to analyse the causes of poverty and its links to economic policies, in order to transform medium-term PRSPs into longer-term plans to reach the MDGs.

9. ***Reinforcing Capacity-Building Efforts.*** Work on debt management, macroeconomic forecasting and poverty reduction planning, by the HIPC CBP and other international and regional organisations, must be substantially reinforced. Ministers' top priorities are:

- enhancing coordination among managers of debt, new financing, economic policy and poverty reduction, as well as personnel and working conditions;
- computerising recording of public and private debt, and monitoring private non-debt flows and aid grants through surveys;
- training on domestic debt restructuring, as well as refresher training on external debt reduction negotiations;
- training in analysing new financing policy and negotiating aid and commercial flows, as well as domestic debt issuance strategies and integrated asset and liability management;
- developing national models and tools to forecast the macroeconomy and poverty reduction as well as best practices in projecting sectors and sensitivity analysis;
- analysing the poverty effects of macro and structural policy reforms, and budgeting and costing poverty reduction programmes; and
- training in financial sustainability analysis computer tools and overall concepts.

10. ***Future Meetings of HIPC Finance Ministers.*** Finally, Ministers emphasised that capacity building would have sustainable results only if HIPC countries and their populations are empowered to design and implement their own development strategies. As a result, while keeping a close eye on debt relief, their future meetings should focus more on assessing international efforts to mobilise international and national new financing, and on exchanging best practices among countries in areas such as external debt renegotiation, domestic debt reduction, and mobilisation of new financing, in order to ensure that their debt burdens remained sustainable over the long-term.