



IMPLEMENTING HIPC II:

Declaration of the 4th HIPC Ministerial Meeting

London, 5 June 2001

The fourth meeting of HIPC Finance Ministers took place on 5 June 2001 in London, and was jointly organised by DRI and the UK Department for International Development. The number of HIPCs represented rose to 25, of which 16 were represented by their Ministers of Finance, and the remainder by Ambassadors, Deputy Ministers, advisors and Director-Generals. Apologies for non-attendance were received from a further 6 HIPCs, due to IMF missions and budget debates in their countries. Ministers agreed on a “London Declaration” which will be transmitted to the remaining HIPCs, to the Managing Director of the IMF and the President of the World Bank, to heads of UN and other international organisations, and to all G7 and like-minded donor Ministers of Finance and Development.

Ministers reiterated their congratulations to the international community and the Bretton Woods Institutions on the enhanced framework for HIPC II, and on efforts to enhance capacity in HIPC countries. They stressed once more their own commitment to designing and implementing sustainable poverty reduction strategies, and to doing everything in their power to spend debt relief proceeds productively and transparently on poverty reduction. Nevertheless, they raised important common problems which require urgent solutions if HIPC II is to achieve the desired long-term reduction in poverty:

1. IMPLEMENTING HIPC II

Ministers urged the international financial community to:

- accelerate efforts for the remaining HIPCs to reach decision points, by minimising conditionality and being flexible in interpreting track records, in line with the rapid progress demonstrated in 2000;
- reintegrate post-conflict countries more rapidly and comprehensively into the HIPC process, by demonstrating maximum flexibility in conditionality and sharply reducing the first phase of the Initiative before decision point, clearing arrears rapidly, and dramatically increasing aid disbursements and capacity-building assistance to speed reconstruction;
- ensure that countries which have passed decision points are able to reach their completion points rapidly, by interpreting with maximum flexibility compliance with existing conditions and streamlining conditionality in existing and new PRGF programmes;
- front-load debt service relief even more on a case-by-case basis where necessary to overcome the major “humps” of debt service which continue to cause high debt service/revenue ratios in a significant number of HIPCs for 2001-2004, or to increase the reduction in debt service after decision point, to offset rescheduling of arrears
- accelerate the implementation of agreements on interim relief (by all creditors, but especially multilateral and Paris Club) in order to ensure that fiscal relief is provided almost immediately after decision point in line with popular expectations created by HIPC II
- conduct comprehensive assessments of the debt sustainability of all HIPCs when they reach the completion point, and provide more debt relief to compensate any degree of renewed unsustainability (whether this is perceived as temporary or permanent, significant or minor).

- take much more account of shocks which hit economies, in two ways:
 1. introduce a range of new measures to combat them (advance contingency and rapid compensatory financing which is affordable by HIPCs within their borrowing limits in PRGF programmes; accelerating the recommendations of the World Bank Task Force on Commodity Risk Management; reinforcing insurance mechanisms such as those of the Commonwealth Disaster Management Agency; and providing more predictability and stability in donor aid flows) rather than inadequate and delayed additional disbursements of donor grants or multilateral loans.
 2. take account of shocks in interpreting more flexibly compliance with conditionality.
- examine domestic and private sector debt burdens in all future debt sustainability analyses (not just in PRGF documents), especially in the reassessment of sustainability at the completion point, in order to have a picture of total national debt sustainability – without implying that HIPC funds should be spent on relieving such debts;
- give more priority to solving domestic debt problems, which are severely damaging the private sector, growth prospects and therefore the sustainability of external debt

2. FINANCING HIPC DEBT RELIEF

Ministers urged all creditors to accelerate and increase their contributions to HIPC by:

- frontloading relief more comprehensively (notably in the Paris Club and by multilateral creditors) both before and after completion points;
- (for all bilateral creditors) adopting a policy of holding debt service payments in trust for countries which are yet to reach decision points, cancelling 100% of all bilateral debt service from decision point and cancelling 100% of stock at completion point;
- moving the cut-off date and cancelling post cut-off date debt for countries where necessary to reach debt sustainability;
- including all pre cut-off date debt (including short-term and “special” debts) in the debt eligible for relief;
- maximising the additionality of all debt relief by reducing diversion of bilateral aid and using more of multilateral organisations’ own resources;
- making more rapid progress on debt relief from non-Paris Club governments by convening an international conference of such creditors, and by creating a special window or fund for clearing HIPC debts to other HIPC or IDA-only countries through buybacks, funded by resources from within the multilateral system;

- accelerating efforts to achieve adequate debt relief from smaller multilateral creditors, where necessary using financing from the HIPC Trust Fund to supplement inadequate resources of the institutions themselves;
- providing capacity-building support to multilateral creditors to ensure they are calculating and interpreting HIPC relief methodologies correctly;
- providing legal and political support to HIPCs in resisting lawsuits by commercial creditors which have not participated in commercial debt reduction operations.

3. NEW FINANCING NEEDS

Ministers stressed that reaching the International Development Targets will require a much greater effort by the international community to finance poverty reduction. This needs to happen in eight ways, by:

- calculating the financing needs for each individual HIPC country to reach the international development targets, aggregating them in a systematic and comprehensive manner, and presenting such analysis to the Annual Meetings of the IMF and World Bank in 2001;
- limiting non-concessional borrowing where this is necessary to maintain long-term debt sustainability;
- a major increase in grant aid, to reach the UN targets of 0.7% of GNP as soon as possible;
- providing new finance in ways which support poverty reduction strategies, through
 1. untying all aid from the exports of the supplying country
 2. moving from project support to budget support
 3. establishing common disbursement, procurement, accounting, auditing procedures
 4. maximising the value for money of imports supplied and accelerating efforts to eliminate corruption
 5. providing aid only for productive purposes rather than white elephants or arms
 6. making longer-term commitments of aid flows;
- Ministers also recognised the need to reduce aid dependency through an accelerated effort to mobilise their own national resources for poverty reduction. They asked the international community to assist by:
 1. continuing to strengthen HIPC countries' efforts to increase budget revenue, while remaining realistic about the limited and gradual prospects for increases;
 2. encouraging non-debt private sector flows (especially FDI) to HIPC countries as a top priority in order to maximise growth and long-term debt sustainability;
 3. exhorting all OECD countries to provide free market access for the least developed countries and HIPCs, as well as removing agricultural subsidies and other structural barriers which impede market access even in the absence of tariffs;
 4. procuring wherever possible goods financed by aid (notably food aid) from HIPCs themselves.

4. POVERTY REDUCTION STRATEGIES

Ministers welcomed the increased interest in poverty reduction issues generated by the Enhanced HIPC Initiative, discussed the far-reaching processes underway to design, implement and revise PRSPs, and reaffirmed HIPC countries' strong leadership in poverty reduction. They reaffirmed their commitment to accelerated and pro-poor growth policies, through higher investment and employment. To support these efforts, they urged the international community to:

- recognise that poverty reduction is much more complex than has been foreseen and it is vital to continue to develop expertise in HIPC country administrations to lead on these issues;
- acknowledge that the PRSP process has been a learning exercise for everyone, including the development partners. This learning process has to accelerate to fulfil the high popular expectations of reducing severe poverty in most countries;
- continue to maximise the provision of early debt relief to improve government credibility in funding rapid poverty reduction and fulfil civil society expectations;
- learn and transmit maximum lessons from implementation experience and new international knowledge (from the widest possible range of sources) in order to improve PRSPs regularly;
- shift the focus of attention from the extensive effort to diagnose poverty and “count the poor” to analysis of the causes of poverty and its links to macroeconomic policies;
- speed up the process of designing an analytical framework on how to link macroeconomic policies and poverty reduction, which should then be extensively and publicly discussed by HIPCs and eventually adopted as a common analytical tool to adapt to country needs;
- avoid continuing delay in Completion Points by streamlining and facilitating the PRSP consultation process to focus on the key issues;
- support HIPCs in their efforts to lead donor co-ordination, by encouraging all major donors to focus their support on programme aid for poverty reduction;
- focus on accelerating growth, investment and employment, for which foreign direct investment is a key component;
- design growth policies in such a way as to provide both accelerated and pro-poor growth, recognising and overcoming any potential trade-offs in order to maximise poverty reduction;
- increase efforts to sequence poverty reduction actions and enhance complementarity of their implementation (eg between primary and secondary education, or health and education);
- analyse the effects of HIV/AIDS and malaria on economic growth more clearly and include where necessary in all PRSPs explicit measures to combat them;

- streamline aid commitment, disbursement and procurement processes, in particular reduce disparities among donors procedures, to ensure that aid supports poverty reduction;
- provide greater capacity-building resources on poverty reduction for HIPC administrations and civil societies, to ensure leadership of the poverty reduction process.

5. CAPACITY BUILDING REQUIREMENTS

Before the meeting the Ministers received a detailed questionnaire about their priority capacity building requirements. The responses to the questionnaire and their interventions in the meeting indicated that their top priorities for capacity-building are:

- On **institutions**, the priority is to reinforce personnel numbers and equipment. The HIPC CBP needs to continue its endeavours to improve institutional capacities and to generate political awareness and will to build capacity among HIPC policymakers. This objective could be attained by an increase in CBP follow-up missions and institutional support in order to overcome institutional barriers to debt management.
- As far as **operational management of development finance** is concerned, Ministers stressed the importance of computerised debt management. In spite of substantial recent efforts, and though some countries have debt management software, much more effort is needed in this area, and the institutions responsible for data management software should be requested to accelerate genuine capacity building and its regional decentralisation.
- On **debt renegotiation**, Ministers in particular recognised the requirement for practical training in Paris Club negotiations, as well as in restructuring domestic debt. They commented that the HIPC-CBP's workshops on debt negotiation have shown that one can dramatically increase capacities, if training uses the countries' own data and documents to simulate negotiations adapted to the situation of each country.
- On **new financing policy**, Ministers unanimously stressed the need for practical training in negotiating new official bilateral and multilateral flows – not only their concessionality and quantity but especially their quality. HIPC capacities have increased somewhat in this area but this will remain crucial to consolidate long-term debt sustainability.
- In **macroeconomic forecasting**, the main requirement is the development or refinement of country-specific multi-sectoral long term forecasting models. HIPCs also need to continue exchanging information on best practices in forecasting sectors (external, public finance, monetary and financial, real and poverty reduction). Ministers therefore appealed to all institutions working in these areas (including DRI), to increase their endeavours to improve the capacities of the HIPCs in terms of forecasting economic development and poverty reduction, through detailed work in their countries.

- Ministers underlined the great importance of building capacity to produce and implement **poverty reduction programmes**, particularly with respect to the following aspects:
1. The poverty impact of macroeconomic and structural policies;
 2. Budgeting, costing and evaluation of poverty reduction programmes;
 3. Monitoring and implementing programmes;
 4. Mobilising external and domestic resources for the programmes.

They urged all concerned institutions to accelerate their efforts at international, regional and national levels to build HIPC capacities in these areas.

- Finally, as concerns **computerised analysis of financial sustainability**, Ministers assigned top priority to training in tools which analyse financial sustainability and, using such tools, to the production and implementation of financial development strategies.

In conclusion, Ministers emphasised the importance of continuing to organise exchanges of experience among HIPC countries at both technical and political levels, the latter through the continued organisation of HIPC Ministerial Meetings. Ministers urged continued rapid decentralisation by all international institutions to regional partners such as the BEAC-BCEAO Pole Dette, CEMLA, MEFMI and WAIFEM. In addition, the African countries whose official language is Portuguese (PALOPs) urged the creation of an informal network and continued training events specifically for themselves, to accelerate the transfer and exchange of knowledge.