



## **IMPLEMENTING THE HIPC INITIATIVE:**

***CONCLUSIONS AND RECOMMENDATIONS  
OF THE 1<sup>ST</sup> HIPC CBP MINISTERIAL MEETING***

***Copenhagen, 8 December 1999***

The following are the conclusions and recommendations of a Ministerial Meeting of Heavily Indebted Poor Countries (HIPCs) in Copenhagen on 8 December 1999. This was attended by Ministers and senior officials of 16 HIPC countries, representatives of the funding donors of the HIPC Debt Strategy and Analysis Capacity-Building Programme (Austria, Denmark, Sweden, Switzerland and United Kingdom), under whose auspices the meeting was organised, and staff of the technical office which implements the programme, Debt Relief International.

The conclusions were presented to all relevant international and regional capacity-building organisations by four HIPC Ministers at the Fifth Steering Committee Meeting of the HIPC DSACBP on December 9.

The meeting consisted of two sessions, one on the Implementation of the HIPC Initiative; and a second on the capacity-building needs of the HIPCs.

## **1. THE IMPLEMENTATION OF THE HIPC INITIATIVE**

### **1.1. TIMING OF RELIEF**

- There has been an unjustified delay in bringing some countries to HIPC relief, whilst the World Bank and the IMF have been defining the enhanced initiative and Poverty Reduction Strategy Papers (PRSPs), and mobilising funding for the enhanced initiative.
- For countries just starting ESAF/PRGF programmes, a 3 year wait to Decision Point is too long for Poverty Reduction Strategies to remain underfinanced by lack of HIPC relief: this provides an to regress into lethargy.
- Retrospective relief, for those countries which have already passed decision or completion points under HIPC, is not coming fast enough. There is a strong case for eliminating the proposed “third phase” except in cases of major adjustment programme problems – in other words, these countries should have simultaneous “second decision points” and “second completion points”, wherever possible at the same date as their “first completion points”.
- HIPCs are also concerned that the dates used to calculate retrospective relief are not their original decision points – resulting in a substantial loss of debt relief.

### **1.2. ELIGIBILITY CRITERIA**

- The debt service/revenue ratio needs to be given much more prominence, and account needs to be taken of the domestic and private sector debt burdens (without implying that the HIPC Initiative will relieve them).
- Criteria and programmes need to protect (using very realistic macroeconomic projections, and contingency mechanisms and financing) against instability of exports, or budget revenue, to avoid post-completion point shocks making debt unsustainable again, as has already happened in several countries.

### **1.3. POVERTY REDUCTION STRATEGIES (PRSPs)**

- The primary use of the savings from debt relief should be for spending on poverty reduction, as well as fiscal balance to ensure stabilisation.

- Most countries already have Poverty Reduction Strategies (and donors have been supporting them). So the international community should not reinvent the wheel by insisting on a new PRS in each country.
- However, existing Poverty Reduction Strategies may need to be broadened and deepened in several ways:
  - extending spending beyond social sectors to include rural development, micro credit, and welfare programmes for vulnerable groups;
  - analysing the poverty effects of all macroeconomic policies; and
  - monitoring income distribution, employment and empowerment of the poor, which are crucial to ensuring sustainable growth.
- PRSs should be flexible and adapted to country circumstances, both in the process (eg nature of participation and consultation) and content (eg taking into account needs for recovery from natural disasters or civil strife).
- Ideal methods for designing or broadening Poverty Reduction Strategies are bottom-up and participatory. Countries need space to conduct this process - before extensive involvement of donors or Bretton Woods Institutions.
- For annual and medium-term budget planning, the level and timing of debt relief and especially new flows need to be as predictable as possible: unpredictable resources will undermine the budget and PRS, and disappoint the expectations of civil society and donors.
- All countries need considerable frontloading of relief for poverty reduction, to live up to public expectations of rapid impact of debt relief, and to reduce uncertainty.
- It is vital to sensitise civil society extensively, in order to ensure that they have realistic expectations about the timing of relief and new flows.
- There is a concern that IMF staff may not currently have the right skills to analyse poverty reduction and its benchmarks, and therefore a need to involve the World Bank, other UN agencies and independent analysts.

#### **1.4. CONDITIONALITY**

- Ministers are concerned (and short of information) about the Poverty Reduction and Growth Facility, and especially about how the transition period from ESAF to PRGF will be handled.
- Conditionality should only spring from a domestically-built Poverty Reduction Strategy, which will be approved by the international community provided that it meets certain minimum standards. It should not be additional or donor-driven.
- There are already too many conditions: therefore PRGF must have a very limited number of benchmarks, replacing some of the existing ESAF benchmarks which are less directly related to poverty reduction, rather than adding to them.
- Conditions should focus on aspects which are within government control (process of participation, spending levels and intermediate indicators) rather than wider goals which may be beyond government control.
- Compliance needs to be flexibly assessed.

For example:

- a HIPC which fails to achieve one ESAF or PRGF condition (especially if that is not directly related to poverty reduction) should not have its debt relief delayed;
- social spending levels should be set as guidelines rather than conditions, and take into account justifiable reasons for shortfalls;
- debt relief should not be delayed if an external or domestic shock causes a country to miss some of its social spending targets due to shortfalls in budget revenue or donor funding.

### **1.5. FINANCING DEBT RELIEF**

- It is up to the international community to mobilise contributions from different creditor groups: HIPCs have very limited power to influence their creditors.
- Some HIPCs face major shortfalls in relief because some non-Paris Club bilateral creditors are not participating. In many cases, it is politically difficult for HIPCs to insist on such relief.
- All regional multilaterals need to participate, and to the maximum degree with their own resources rather than diverting other aid flows.
- All the bilateral debt of OECD countries needs to be treated in the Paris Club: there should be no categories of debt (monetary, postal, hospital, parastatal) that are excluded.
- It is important to advance rapidly with cancellation of ODA debt, and to ensure that it is additional to HIPC relief.
- Post-cut-off date debt should be treated where necessary.
- If there is not enough frontloading of relief, there will be a need for Multilateral Debt Funds to continue, or aid grants more generally to rise, in order to fund accelerated poverty reduction in the early years of programmes.
- In spite of worries about whether there is enough financing available for the HIPC Trust Fund, this should not be a cause of delay, as there is certainly enough funding to provide relief for those countries which have reached or are soon to reach their decision points.

### **1.6. NEW BORROWING/FINANCING**

- There is major concern that debt relief is not fully additional: there have already been examples of new grant or loan commitments (particularly bilateral debt relief support) being reduced because of HIPC relief.
- Some donors (eg Japan/Arab funds) are directly threatening to end new flows if a country gets relief under HIPC. The international community should oppose this strongly.
- There continue to be major problems in receiving aid flows on schedule. Projections of disbursements in PRGF programmes need to be highly realistic, and donor coordination and recipient absorptive capacity need to be improved dramatically.
- HIPC financing strategies need to insist that any new borrowing be on concessional terms – and wherever possible with minimum grant elements well above 35%, or with giving preference to grant funding - but this requires that there are sufficient donors available to provide funds at that grant element for less “popular” countries.

## **1.7. PARTICIPATION OF HIPCs IN HIPC DESIGN AND IMPLEMENTATION**

- There is an urgent need to provide more information to HIPCs on other countries' experiences - and in their own languages.
- HIPC governments should establish their own independent review group or network to review the HIPC Initiative on a semiannual basis.

## **2. PRIORITIES FOR CAPACITY BUILDING IN DEBT ANALYSIS AND STRATEGY**

### **2.1. INSTITUTIONAL AND LEGAL STRUCTURES**

- There has been considerable progress on legislation and regulations, but many countries still need to reinforce and update these.
- Many countries have excellent and different solutions to institutional frameworks which could be used for exchange of information and experiences. There is no single valid solution.
- Most countries still have a need to strengthen institutions (especially staff levels), clarify mandates between and within units and ensure that these are implemented.

### **2.2. BASIC DEBT MANAGEMENT — RECORDING, PAYMENT AND DISBURSEMENTS**

- Most countries have computerised recording systems in place or being updated, but need continuing assistance in upgrading and ensuring an ability to train through regional bases and in each country.
- Countries would prefer to network the systems in order to improve coordination between different agencies involved.
- Some limitations in software continue eg in matching IMF numbers in reconciliations.
- Countries continue to have problems in recording private sector and domestic debt and grants.
- Countries need to systematise compilation of their own information on disbursement procedures to allow them to be more proactive in mobilising disbursements.
- Many need to establish structures for continuous on-job training to increase capacity in basic debt management – recording, payment and disbursement – rather than depending on external international assistance.

### **2.3. DEBT NEGOTIATIONS**

- Extensive need for improvement of negotiating and simulating skills with regard to Paris Club, non Paris Club and multilateral creditors.
- Also need for considerable assistance on domestic debt management.

- Request for continuous assistance using live data and documentation.

#### **2.4. NEW BORROWING POLICY**

- Almost all countries have clear legislation and regulations in place or being elaborated, with centralised borrowing responsibility.
- However, most need to enforce these mandates and responsibilities to make sure other agencies (especially parastatals) do not exceed concessionality levels, and to ensure that the central units have prior approval powers.
- Analysis of new borrowing policy needs to go beyond concessionality to look at other aspects of terms such as tying or conditionality.
- Countries need to be more proactive in identifying appropriate financing sources and strengthen their capacity to negotiate new loans.

#### **2.5. MACROECONOMIC DATA AND PROJECTIONS CAPACITY**

- Most countries have weaknesses in financial and macroeconomic analysis and forecasting, and therefore a strong need for capacity building in this area.
- Many also need urgently to develop their own country-specific models.
- There is also a strong need to improve data collection in many areas – particularly imports and private capital flows, and to avoid duplication between different agencies.
- Many countries still need to establish technical co-ordination working groups among macroeconomic agencies to ensure coordination on forecasts and analysis.

#### **2.6. POVERTY REDUCTION POLICY DESIGN**

- Poverty strategies have been elaborated or are under way in many countries.
- However, they need improving, especially extending spending beyond education and health, analysing the interactions between macroeconomic policies and poverty reduction policies, monitoring income distribution and employment, and transforming them into precisely costed action plans.
- Most countries therefore need some reinforcement of social sector planning and forecasting and the design of poverty reduction strategies.
- They also need to improve the quality and frequency of data collection on social indicators.

#### **2.7. CAPACITY FOR STRATEGY DESIGN/IMPLEMENTATION**

- DRI workshops and support have been very helpful in designing preliminary strategies, need for more support to improve and implement.
- Second generation of workshops should be more comprehensive, covering in more detail certain areas mentioned above.
- Importance of establishing national teams with experts from all sectors and mandates to conduct independent DSAs regularly.

- Need for recording systems to link to both simulation softwares.
- Need to broaden strategies further to include more comprehensive links with growth-oriented macroeconomic and poverty oriented policies.