



IMPLEMENTING HIPC II:

HIPC MINISTERS MEET BWIs TO EXPRESS CONCERNS ABOUT HIPC INITIATIVE

7th HIPC Ministerial Meeting

Washington DC, 27 September 2002

The HIPC Ministerial Network took a new major step forward at the Annual Meetings of the IMF and World Bank in Washington on 27 September 2002. Finance Ministers of 28 Heavily Indebted Poor Countries, under the Chairmanship of Michel Meva'a m'Eboutou, Minister of Finance and Budget of Cameroon; Gerald Ssendaula, Minister of Finance, Planning and Economic Development of Uganda, and Famara Jatta, Secretary of State for Finance and Economic Affairs of The Gambia, met senior officials of the Bretton Woods Institutions and Ministers of Development of donor countries to discuss their concerns about the slowing pace of implementation of the HIPC Initiative and the resulting lack of long-term debt sustainability for the majority of HIPCs.

The meeting was somewhat disrupted by security and transport problems and therefore the debate was much less active than normal at HIPC Ministerial Meetings. However, during and after the meeting, Ministers made many positive recommendations for improving HIPC implementation, revolving around four areas:

1. *Creditor Non-Participation*

Non-participation by many creditors has left a large number of countries with an unsustainable debt burden. Recent documents produced by the Bretton Woods Institutions have paid more attention to this issue, but Ministers lamented the slow progress of measures to deal with the problem. They made five additional suggestions:

- that the BWIs should analyse country-by-country exactly the impact of this non-participation on debt sustainability and present the analysis in future Board papers, including their next overall analysis of the HIPC Initiative;
- the creation of a rapid response legal technical assistance facility to help countries fend off lawsuits by creditors, whether in their own or foreign jurisdictions, as well as closer integration of such measures with the discussions on “standstill” procedures for middle-income countries;
- the creation of a facility to clear debts which are owed to other HIPCs – but also to other countries which have received concessional debt relief, or to sub-regional multilateral institutions whose members are predominantly low-income or HIPCs; and
- that G7 members and other donor countries should keep providing financing for the HIPC Trust Fund, but that, wherever possible, multilateral institutions should consider providing more of their own funds to fill any financing gaps relating to their contributions, reserving donor contributions to those institutions which have no funding available to contribute.

2. *External Shocks*

Ministers congratulated the Bretton Woods Institutions for being more candid in their recent Board papers about the over-optimism of their past economic projections, and the risks posed by ‘external shocks’ such as commodity price falls to country debt sustainability. However, they noted that virtually no proposals are being made at an international level to overcome this problem apart from more adjustment by developing countries and more concessional financing by donors.

They stressed that it is essential to surround the HIPC initiative with a wider framework of measures to overcome shocks. These should include:

- more realistic economic projections in PRGF programmes which spell out more clearly exactly how accelerated growth to achieve the Millennium Development Goals (MDGs) is to be achieved;
- the counting of any bilateral debt cancellations beyond 90% as genuinely “additional” relief, bringing down the HIPCs debt burdens on average by a further 25% of exports and allowing them an additional safety margin to protect against shocks; and
- the provision of cheap, automatic and rapidly available contingency financing to HIPCs, based on annual reassessments of debt sustainability, to ensure that external shocks do not cut funding available for poverty reduction spending.

3. *Streamlining Conditionality*

Ministers reiterated their commitment to sound economic management, budgetary discipline and low inflation. However, they stressed that the main reason for the worrying and growing delay in HIPC Initiative debt relief is NOT the participatory processes surrounding the building of a national consensus on poverty reduction strategies. Rather it is the continuing failure to streamline IMF and World Bank conditionality sufficiently, which is undermining ownership and implementation of programmes and delaying PRGF reviews and new programmes.

They therefore urged the Bretton Woods Institutions to:

- reduce even further the number of structural conditions in programmes, limiting them to those that are essential to growth and poverty reduction, and eliminating all micro-management of their economies;
- approve for countries which have attained a degree of stabilisation more flexible macroeconomic frameworks, which provide more scope for accelerated growth and anti-poverty spending;
- move much more rapidly forward on developing methodology for ex ante Poverty and Social Impact Analysis of all programme conditions, so that practical tools can be applied by HIPCs themselves to such analysis, benefiting from assistance which is independent of the BWIs where necessary; and
- review progress by the BWIs and other donors in streamlining conditions and developing and applying PSIA on a semi-annual basis.

4. *Financing the Millennium Development Goals*

Ministers expressed their satisfaction at recent pledges of additional development aid at the Monterrey conference. They also committed themselves to maximising their own efforts to mobilise domestic savings and budget revenues to spend on poverty reduction, as well as to continuing to negotiate for the opening of developed country markets and the removal of agricultural subsidies, and to taking all measures necessary to attract sustainable private foreign investment.

However, they noted that there continues to be no systematic analysis of the contribution that HIPC relief and other financing are making to the Millennium Development Goals and world poverty reduction, or of the remaining financing gap for the MDGs after HIPC debt relief.

They therefore urged the Bretton Woods Institutions to:

- present MDG financing needs and gaps for all countries in all HIPC and PRSP-related Board papers, and

- accelerate their efforts to coordinate additional aid and other flows in such a way as to ensure that financing for poverty reduction goes to those countries which are most committed to poverty reduction and sound economic management, and is not allocated on the basis of bilaterally-determined strategic or commercial reasoning.

They also regretted the continuing offers of non-concessional and low-quality (especially tied, project-specific and ill-coordinated) finance for non-priority projects they are receiving from many OECD countries, and the lack of analysis of domestic debt issues in PRGF and HIPC Board Papers. They therefore committed themselves to refusing wherever possible offers of external non-concessional or low quality finance, and to analysing their own domestic debt sustainability, in order to ensure sound debt management. However, in the absence of concessional finance and when faced by external shocks, HIPCs come under immense pressure to accept offers of less good development financing. They therefore urged international institutions and OECD governments to help them avoid such offers by:

- expanding their analysis of future external financing and their recommendations on the types of finance which HIPCs should avoid, beyond simplistic concessionality ceilings, to cover a much wider range of 'quality' aspects;
- conducting a comprehensive impartial review for their Boards of major donor and lender financing practices to act as a compendium of financing options for HIPCs; and
- working even more actively in all donor coordination fora to improve the quality as well as the quantity of their financing.

Finally, Ministers endorsed two proposals for greater coordination of capacity-building assistance to HIPCs. They agreed to:

- convert the HIPC CBP Steering Committee into a wider HIPC Coordination Group that will include all non-profit providers and funders of debt management capacity building assistance to HIPCs, and will allow HIPCs to set the agenda for donor assistance in financing initiatives to build their capacity in debt management and related areas, from its November 2002 meeting; and
- conduct (with assistance from the CBP implementing partner organisations) their own realistic semi-annual self-evaluations of debt management capacity in order to define more clearly the agenda and priorities for building capacity in HIPCs. This will build on the evaluation system previously developed for reporting to donors on the progress of the CBP, and summaries of its results will be shared with the international community at the HIPC Coordination Group meetings.

Following the Ministerial Meeting, a press conference on Saturday 28 led by the Ministers of Finance of Mozambique and Niger attracted more than 50 journalists and received wide press coverage. The Ministers of Uganda and The Gambia also took the recommendations of HIPC Ministers forward into the African Caucus and Development Committee meetings, enhancing coordination with major representative groupings. The HIPC Ministerial Network will next year accelerate its efforts to raise the voice of HIPCs in international fora.