



**HIPCs ENDORSE UK PROPOSALS ON DEBT RELIEF,
PRESS FOR CHANGES TO LONG-TERM DEBT
SUSTAINABILITY FRAMEWORK
AND REFORMS TO FINANCING FOR THE MDGs**

*Communiqué
10th HIPC Ministerial Meeting*

Washington, 2nd October 2004

The 10th meeting of HIPC Finance Ministers took place in Washington on 1st October 2004, under the joint presidency of H. E. Donald Kaberuka, Minister of Finance and Economic Planning of Rwanda and H. E. Javier Cuevas Argote, Minister of Finance for Bolivia. Ministers representing 35 other HIPCs were also present. The meeting recommended measures to enhance debt relief, ensure long-term debt sustainability and finance the Millennium Development Goals.

1) Enhanced Debt Relief

Ministers strongly supported the UK Government's Initiative to cancel debt service to multilateral institutions through to 2015. They stressed that any debt relief proposal needs to:

- Involve genuinely additional funding for the MDGs, rather than accounting gimmicks of offsetting debt service reduction with reduced new flows.
- Ministers stressed the additionality to be achieved from using IMF gold. They urged that IMF gold be used to fund debt relief by other organisations – which is feasible under IMF rules.
- Preserve the integrity of the multilateral organisations and their long-term capacity to fund development – i.e. not run down the disbursement capacity of IDA and the soft loan windows of the multilateral development banks.
- Provide predictable long-term financing for the Millennium Development Goals rather than a quick fix.
- Provide equity among HIPCs. They urged that all HIPCs – especially those between decision and completion points – be eligible for 100% debt service relief, to kick-start their funding of the MDGs. Pre-decision point countries could have the debt service savings put 'in trust' for them until they reach decision point.
- Provide equity between HIPCs and non-HIPCs, by providing debt service relief or extra budget support to highly indebted non-HIPCs.

Ministers reiterated their earlier urgent demands for action to prevent lawsuits by rogue creditors, which have affected more than 18 countries. In this light:

- They welcomed the endorsement by Commonwealth countries of HIPC Ministers' idea of establishing 'rapid reaction' legal assistance in the Commonwealth to avoid lawsuits, but urged that this be extended beyond Commonwealth countries.
- They urged the international community IMMEDIATELY to establish a trust fund to clear all debts among low-income heavily indebted countries.

2) Long-Term Debt Sustainability

Ministers welcomed the examination by the BWIs of long-term debt sustainability in low-income countries. However, they urged that:

- In the spirit of country ownership under the PRSP, low-income country (LIC) governments and civil societies themselves should conduct their own analyses and lead the process of defining their own preferred indicators for debt sustainability.
- Debt service/budget revenue be given pride of place as the most important indicator of debt problems. They stressed that reliable budget revenue data are available in their countries, and that there is no risk that using this ratio would discourage tax efforts by LICs because these are agreed with the IMF.
- This will imply accelerating efforts by independent (non-BWI) sources to build country capacity for such analysis.
- The proposed thresholds should be adjusted to take account of country vulnerability to external shocks.
- Analyses should include domestic debt, including indicative risk thresholds, to ensure that LIC governments make the best future borrowing decisions.

- More analysis be conducted of the proposals to include conditionality in IMF programmes relating to fiscal deficits and indicative PV ceilings, to demonstrate that these limits would not excessively constrain funding for the MDGs, but would rather assist governments to mobilise more concessional financing.

3) Financing the Millennium Development Goals

Ministers reiterated their profound disappointment at the slow progress of efforts to enhance their capacity to analyse the sources of growth for poverty reduction, the costs of MDG-related spending, and best practices to increase their capacity to absorb aid flows. They asked donors to enhance independent efforts to analyse these issues.

Ministers stressed the need for donors to redouble their efforts to live up to their Monterrey aid pledges. They welcome the forward movement on the UK proposal for an International Financing Facility, but urge other donors to ensure that they provide extra funds in flexible fast-disbursing forms such as budget support.

Ministers also regretted the lack of comprehensive action to protect them against 'shocks', which will be the main factor preventing them from reaching the MDGs. They stressed that – with international support – they could take many measures to avoid shocks – such as irrigation against droughts. However, they also urged the Bretton Woods Institutions to ensure that they analyse all likely 'shocks' in their forecasts, and urged the donor community to provide large amounts of grant-based rapid financing to protect them against shocks.