DEBT RELIEF AND FINANCING THE MDGs

Communiqué of the 11th Meeting
of HIPC Finance Ministers

Maputo, 16 March 2005

The 11th meeting of Finance Ministers of Heavily Indebted Poor Countries (HIPCs) was held in Maputo on 16th March 2005, under the joint chairmanship of H.E. Manuel CHANG, Minister of Finance of Mozambique, and H.E. Adelino Castelo DAVID, Minister of Finance of Sao Tome & Principe. Representatives of 20 HIPCs took part, and made important recommendations for measures to improve debt relief delivery, assure long-term debt sustainability, and finance the attainment of the Millennium Development Goals (MDGs).

1) – Improving Debt Relief Mechanisms

Ministers strongly support the initiative of the UK government in favour of cancelling the debt service due to multilateral institutions through until 2015. In particular, they encourage:

- other donor countries to finance their share of the service due to multilateral institutions (IDA, AfDB/AfDF, IADB), where possible also drawing on financial contributions from the resources of the multilateral institutions themselves;

- the use of the IMF's gold reserves as a means to ensure the additionality of funding for debt relief. Ministers would also like to see the IMF's gold reserves being used to finance debt relief by other multilateral organisations ;

- a guarantee of equitable treatment for all HIPCs. Ministers recommend that all HIPCs – in particular those between decision and completion points, and post-conflict countries – should benefit from greater reduction of their multilateral debt service in order to accelerate their anti-poverty and pro-MDG spending programmes. This arrangement could also cover countries which are not yet eligible for HIPC. For this last category of countries, the savings on debt service could be invested in a « trust fund » which they could access once they reach HIPC decision point.

- equitable treatment of severely indebted low-income countries which are not eligible for the HIPC Initiative, achieved by providing large amounts of assistance through debt reduction or budget support aid.

Ministers strongly repeated their demand to the international community for help to ward off lawsuits which they are facing from a growing number of external and domestic creditors. Eighteen (18) countries are currently facing lawsuits, and are having to pay large amounts to settle them. As a result, Ministers :

- request the very rapid establishment inside the Commonwealth Secretariat of a « rapid response » assistance mechanism for debtor countries which are subject to lawsuits. They would also like this important initiative to be extended to HIPCs which are not members of either of these two institutions (possibly in cooperation with the Agence Internationale de la Francophonie and the HIPC CBP) ;

- call on the international community to put in place immediately a fund destined to resolve the debts owed between severely indebted and low-income countries.

2) – Long-Term Debt Sustainability

Ministers note the new long-term debt sustainability analysis framework for low-income countries designed by the Bretton Woods Institutions, and welcome the improvements made in its design in recent months. Nevertheless, they recommend :

- greater ownership of the framework by debtor countries, by conducting analysis for themselves and defining their own sustainability indicators. This should be done in a participatory process by collaboration between governments and civil societies, in the same spirit as the construction of national Poverty Reduction Strategies ;

- recognition that the ratio of debt service to budget revenue is the most important in analysing debt sustainability. Ministers underlined that their countries have reliable data on their budget revenue, and that they will continue (with IMF help) to ensure maximum efforts to increase these revenues ;

- acceleration and additional funding of efforts of independent (non-BWI) organisations which reinforce debtor capacities to undertake debt sustainability analyses ;

- taking the problem of domestic debt fully into account in the new framework, to improve public finance management, monetary policy and financial market development. Ministers underline that reliable data and methods for analysing domestic debt sustainability are already available and being used by HIPCs under the HIPC CBP ;

- increased flexibility in IMF programmes, as regards conditionalities on budget deficits and on indicative limits on the present value of new borrowing, to ensure that they are entirely coherent with national MDG financing needs.

3) – Financing the Millennium Development Goals (MDGs)

Ministers deplore once again the slow progress being made in reinforcing their capacity to analyse the sources of pro-poor growth ; the costs of meeting the Millennium Development Goals ; and the best practices in increasing absorption of additional external aid flows. They urge donors to accelerate independent (non-BWI) efforts to support them in such analysis.

Ministers congratulate those donors which have fixed specific target dates to reach the level of aid (0,7% of GNP) set at the Monterrey Summit. They support the recommendations of the Millennium Project and the Commission for Africa to double aid flows to HIPCs. More particularly :

- they welcome the progress made in putting into place a pilot phase of the International Financing Facility (IFF) by the government of the United Kingdom and other countries, and urge other donors to support the IFF ;

- they also support the proposals made by a group of countries (Brazil, Chile, France, Germany and Spain) on 11 February 2005, with the aim of mobilising new financing sources, including through taxation of airline tickets ;

- they also support the proposals of the Commission for Africa regarding the establishment of a new grant-based facility to offset the effects of exogenous shocks.

They recommend that this facility should be disbursed much more rapidly and flexibly than funding from existing anti-shocks mechanisms.

Finally, Ministers welcome the joint efforts of the donor community and developing countries to improve the efficiency of aid, which were reinforced during the High Level Forum meeting from 28 February to 2 March 2005 in Paris. They support the concrete commitments made on that occasion by the member states of the European Union, Norway and Switzerland. For their part, they undertake to meet all targets assigned to them, in order to convince the international community to use HIPCs' own procedures for disbursing their aid. In addition, they encourage donor countries to:

- reach a final consensus agreement among all donors and developing countries, on precise indicators and targets, well before the post-Monterrey meeting due in New York in September 2005 ;

- include in the indicators :

  - a reduction of conditionality, especially on political issues and by bilateral donors,
  - a transformation of technical assistance into capacity-building support,
  - an increase in budget and sector support aid,
  - the allocation of all aid to priority sectors of PRSPs,
  - commitment of a maximum amount of aid through multiannual agreements,
  - disbursement of a maximum amount of aid in the 1st quarter of HIPCs' budget years,
  - the design by HIPCs' themselves of aid management strategies with precise aid effectiveness indicators, and action plans to reach annual targets,
  - the reduction of requests by donors for counterpart funds for projects,
  - the alignment of reporting, accounting and auditing procedures with those of HIPCs,
  - the simplification of procurement procedures.

- Establish an objective system for joint evaluation of progress, by donors and developing countries (if necessary with independent support), at the national, regional and international levels.

Ministers agreed to meet once again at the time of the Annual Meetings of the Bretton Woods Institutions, in Washington in September 2005.