7th Commonwealth HIPC Ministerial Forum
Maputo, Mozambique
15 – 16 March 2005

Statement by Representatives of Civil Society

Preamble

1. We, representatives of civil society from Cameroon, Ghana, Guyana, Kenya, Malawi, Mozambique, Uganda, Sierra Leone, Zambia and the regional network, the African Forum and Network on Debt and Development (AFRODAD), met in Lilongwe, Malawi from 8 to 10 December 2004 and in Maputo, Mozambique on 15 March 2005 to study in detail the country situations of Commonwealth HIPCs and prepare our participation in the 7th Commonwealth HIPC Ministerial Forum, 15 to16 March 2005. We welcome the opportunity afforded us once again to engage with our Ministers and other cooperating partners at Commonwealth level.

Issues

2. The HIPC initiative has failed to provide low-income countries a 'permanent and robust exist' from indebtedness and no participating country has achieved debt sustainability. Low-income countries owe a total of US$523 billion in debt to all creditors. Of this, the African Continent alone has a debt stock of $330 billion and still spends US$15 billion every year in debt service to rich countries and the international financial institutions. Continued debt service by sub-Saharan African countries constitutes a reverse transfer of resources to wealthy creditor countries by those that can least afford it. Moreover, a number of severely indebted countries, such as Nigeria, have been excluded from the HIPC initiative altogether.

3. The international community now recognises that such unbearably high levels of debt are incompatible with attaining the internationally agreed Millennium Development Goals (MDGs) by 2015. Even those countries that have successfully reached completion point under the HIPC initiative, and have received some debt write-off, have quickly found their debts unsustainable once again. This is the case for Uganda and Mozambique, among others.

4. The HIPC initiative does not address domestic debt, notwithstanding that many participating countries are experiencing increases in their domestic debt to GDP ratio.

5. The creditor-led framework of the HIPC initiative has contributed to changing rules of the game, most notably with regard to the criteria for reaching completion point; this can have negative consequences for participating countries. Countries that are judged to have failed to meet the requirements of the Poverty Reduction and Growth Facility (PRGF) and are suspended from the HIPC initiative, for example, are forced to resort to the domestic market for resources to meet their obligations, and thereby increase their domestic debt stock.

6. The World Bank/IMF debt sustainability analysis does not include domestic debt and is not linked with a country's ability to achieve the MDGs. As argued in the report of the Africa Commission, debt relief and aid made available to countries should be analysed against the backdrop of the financing needed to reach the MDGs, rather than the present narrow economic indicators to determine debt sustainability.

7. We recognise the efforts of our governments to tackle poverty in our countries. In this context, we would like to work with you to ensure that debt relief takes into account the financing

needed to attain the MDGs and addresses the burden of domestic debt in all impoverished nations. We appreciate that you have tried to address some of these concerns in both domestic and international forums and we are committed to working with you to find lasting and sustainable solutions to the poverty - debt trap our countries find themselves in.

Recommendations

8. It is against this backdrop that we make the following recommendations, which we call on our governments to support.

a. ***Domestic debt should be considered in all debt sustainability analyses*** as servicing it can also impede economic growth and governments' ability to provide public goods and services. Debtor governments should be given the support required to manage domestic debt.

b. ***Financing of priority expenditures and the MDGs must be ring-fenced.*** HIPC eligibility should be de-linked from the PRGF in order to limit the need for countries to resort to the domestic market to make up resource short-falls.

c. ***Equal participation in the design of frameworks and in decision-making processes about debt resolution*** should be introduced to ensure that these initiatives respond to the needs of the countries they are intended to benefit and result in a decrease in indebtedness and support poverty reduction. Creditor-designed and led debt resolution exercises have failed.

d. ***Private sector involvement in the provision of social services must not only be determined by commercial interests, but should also be driven by social responsibility***, in particular in the sharing of risks associated with the provision of public goods, such as water. The concept of public private partnerships should be expanded to include the participation of people, in order to design and deliver essential service solutions that guarantee access for all and are compatible with the achievement of the MDGs.

e. ***One hundred per cent unconditional cancellation*** of debts should be extended to all those low and middle-income countries where debt service payments are seriously hindering efforts towards achieving the MDGs by 2015.

f. ***Any debt relief initiatives should ensure additional, sustained and positive net financial flows to these countries*** in order to release resources for investment in poverty reduction.

Proposal for enhanced debt relief

9. We welcome the efforts of some creditor countries to address the debt crisis. Of the current proposals tabled by creditor nations, the UK Government proposal for 100% debt service cancellation over 10 years is a welcome step forward. It could, however, be more comprehensive if it were expanded to include more countries. The fact that the proposal extends to a limited number of countries that meet certain criteria and conditions as decided by creditors is of concern. There is also concern that only using bilateral contributions for multi-lateral debt payments effectively serves to convert grants into loans and increases moral hazard for institutional lending. There is further unease that this proposal might divert resources away from overseas development assistance to debt cancellation, when what is needed is for debt cancellation to complement rather than substitute aid.

10. It is in this context that we propose the following:

- One hundred per cent multilateral debt cancellation for all poor countries. Additional funding should be provided to meet the MDGs.
- The required funding should be generated in a tiered manner, as outlined below, with each of three tiers being exhausted before the next one is used.
    - The first source of funding would be the sale of IMF gold, which could mobilise up to $35 billion. This money should be used for the cancellation of multilateral debt owed to the IMF and other institutions such as the World Bank.
    - If these resources prove insufficient, additional bilateral contributions of the kind pledged by the UK can be used to make up the short-fall.
    - If additional funds are still needed, a third source of funding of up $17.5 billion could be made available through the World Bank's non concessional lending arm, the International Development Association (IDA).

11. Given the recurrent nature of debt and in order to bring about a permanent exit from debt, the international community needs to energetically support the creation of an alternative debt restructuring mechanism to address grossly unequal debtor-creditor relations in international debt negotiations. We believe that proposals for a Fair and Transparent Arbitration Process (FTAP) and International Arbitration Courts represent strong and viable options for a fair debt work out mechanism. Such a mechanism should address complaints of odious and illegitimate debt. It should be open to all countries, involve civil society organisations and address multilateral, bilateral and commercial debts. Additionally, our governments need to adopt legislation that limits their debt service to not more than 10% of government revenue in order to allow sufficient investments in the social and productive sectors of our countries.

Conclusion

12. We are grateful for this opportunity to engage in a dialogue with Ministers and other stakeholders and reiterate our commitment to working with our governments towards long-term, sustainable solutions to the current debt crisis and the development of all people.