

HIPC FINANCE MINISTERS COMMUNIQUE

Washington, 10 October 2008

“Financial crisis must not jeopardise MDGs”

The 15th meeting of Finance Ministers of Heavily Indebted Poor Countries (HIPC) was held in Washington on 10 October 2008. The meeting was co-sponsored by the HIPC Capacity-Building Programme, the Commonwealth Secretariat and the Organisation Internationale de la Francophonie.

The meeting was held under the joint chairmanship of H. E. Ali M. Lamine ZEINE, Minister of Finance and Economy of NIGER; and H.E. David CAREW, Minister of Finance and Economic Planning of SIERRA LEONE. HIPC Ministers made important recommendations to mitigate the impact of the global financial crisis on their economies, improve debt relief delivery, assure long-term debt sustainability, finance the Millennium Development Goals (MDGs), and continue to build their debt management capacity.

1) Global Financial Crisis

Ministers warned that the global financial crisis will have a negative impact on their economies, through many channels, including: falls in remittances and private capital flows; reduced access to and increased costs of bonds, and bank credit lines for trade; falls in stock exchanges; and reduced returns on reserves invested in OECD bonds. Lower OECD demand for commodities could also reduce their export earnings, though oil price falls would benefit oil importers.

In this context, Ministers undertook to be even more vigilant in maximising their own national tax receipts (including from foreign investors) and savings, in increasing the value added and earnings from their exports, and in using all resources mobilised to make maximum contributions to development. At the same time, they urged donors to fulfil their pledges of development financing and urged the Bretton Woods Institutions to produce comprehensive analysis of the impact of the crisis on low-income economies.

2) Debt Relief and Debt Sustainability

2.1 Multilateral Debt Relief Initiative

Ministers congratulated the international community on implementing the Multilateral Debt Relief Initiative (MDRI), and mobilising most of the financing needed for the relief, but

- Urged donors to begin negotiations immediately on a substantial replenishment of the FSO, as well as to provide higher aid levels for poverty reduction in Latin America, to that MDRI funding does not considerably reduce concessional flows in Latin America,
- Indicated that it would be desirable to extend the MDRI to cover the Asian Development Bank, Caribbean Development Bank and other sub-regional institutions.
- Urged the international community to redesign formulas for allocating concessional finance from the Multilateral Development Banks, to take more account of country financing needs for the MDGs.

2.2 HIPC Debt Relief

Ministers indicated once again that stronger efforts should be made to accelerate progress to decision and completion points for remaining HIPCs. As delays appear to be due to problems maintaining an IMF track record, they urged the international community to link HIPC progress to PRSPs rather than PRGFs. They also urged rapid movement from IMF EPCA to PRGF programmes for post-conflict countries.

Ministers also noted that there has been little progress on increasing creditor participation in HIPC, or reducing lawsuits by rogue creditors and third parties. Ministers welcomed the legal technical assistance provided by the Commonwealth Secretariat, the proposed support by the AfDB, and the reinforcement of the IDA Commercial Debt Reduction Facility, and urged that these initiatives should be fully coordinated.

Nevertheless, they urged the international community to go beyond such assistance by:

- Establishing a small fund to relieve debts owed between severely indebted and low-income countries, which cannot afford to provide debt relief to one another
- Intensifying efforts to convince non-Paris Club governments to participate
- Convincing a maximum number of creditors not to sell debts to third parties.
- Reinforcing laws in creditor countries to limit or prohibit such lawsuits.

2.3 Long-Term Debt Sustainability

Ministers reiterated that they are determined to maintain their debt sustainability by maximising the concessionality of their new financing, and its effectiveness in promoting development. To this end, they also undertook to implement all the necessary legal and institutional reforms, and to adopt debt strategies through their national parliaments.

Ministers noted that country increases in risk of unsustainable debt had been due to export and climatic shocks, and to changes in World Bank evaluations of country policies and institutions, rather than any renewed irresponsible borrowing. They therefore urged the international community to help them to design comprehensive strategies and provide grant-based financing to protect them against shocks, as well as to switch to a system for evaluating country policies which is more transparent and country-led.

To help them maintain their debt sustainability, they urged that there should be a continuing increase in grants and concessional loans, especially for infrastructure and agriculture; and an improvement in the value-for money of aid. They also urged that the IMF should fix minimum grant elements at 35% except for countries with the most extreme risks of unsustainable debt; and that the Bretton Woods Institutions and independent institutions should continue to analyse domestic and private sector external debt, to set guidelines to avoid these types of debt provoking renewed debt crises.

3) Financing the Millennium Development Goals

3.1 Aid Quantity

Ministers expressed disappointment that some members of the international community are not delivering on their promises made in 2005 to increase aid flows, and urged all G8 and EU members to publish 3-year plans to reach their pledges by 2010, preferably before the Financing for Development meeting in Doha.

Ministers urged the international community to scale up innovative financing mechanisms by widening the International Financing Facility beyond the IFFIm pilot, and increasing the number of countries utilising an airline ticket tax to fund development. However, they reiterated the need to ensure that such financing is entirely additional to normal funds from national budgets, and allows countries to provide more than 0.7% of their GNI in aid.

3.2 Aid Effectiveness

Ministers reiterated their determination to meet all the aid effectiveness targets assigned to them under the Paris Declaration. They welcomed the modest advances in terms of time-bound action commitments made at the Accra High-Level Forum, while regretting that there had not been more progress on aid untying, conditionality reduction, capacity-building and budget support.

Ministers undertook to play a full part in future international-level discussions on issues such as conditionality, assessing their own national systems, and mutual accountability, and urged that the UN Development Cooperation Forum should play a strong role.

At a national level, Ministers committed themselves to formulate and implement aid policies to encourage maximum alignment by donors, and to holding donors and creditors accountable for compliance with these policies. They also emphasised that in order to ensure such mutual accountability they will require extensive building of their analytical and monitoring capacity at the national, regional and international levels.

4) Debt Strategy Capacity-Building

Ministers undertook to reinforce their efforts to adopt and implement debt strategies, building on the successful support already provided by the HIPC Debt Strategy and Analysis Capacity-Building Programme. They also undertook to implement the necessary legal and institutional reinforcements, and capacity-building plans, and to continue to provide large amounts of their own funds for such activities.

Ministers welcomed the continuing initiatives by the Bretton Woods Institutions on debt strategy issues through the Low Income Countries Debt Sustainability Framework (DSF), the initiative to help countries design Medium-Term Debt Strategies (MTDS), and the World Bank's Debt Management Performance Assessment tool (DeMPA). However, they urged the BWIs to work closely with the HIPC CBP partners, given their pre-existing experience in these areas, as well as guaranteeing a strong voice for low-income countries in the governance and direction of their initiatives.

Ministers decided to change the name of their network to the Low-Income Countries' Debt Sustainability Network, and to expand their membership to include all low-income countries with debt sustainability problems. They urged the Commonwealth Secretariat, OIF and HIPC CBP partners to hold discussions with a view to jointly organising and financing future meetings.