Statement by G7 Leaders

Delivering on the Promise of the Enhanced HIPC Initiative

Debt relief alone, no matter how generous, cannot guarantee fiscal solvency, long-term economic growth, and social development. Good governance, prudent new borrowing, and sound debt management by heavily indebted poor countries (HIPCs), as well as responsible financing by creditors, are also essential elements of the policy framework needed to achieve these goals.

The enhanced Heavily Indebted Poor Countries Initiative, launched following the Köln Summit in 1999, is an important avenue for debt reduction. To date, 26 countries are benefiting from debt relief under this Initiative. Overall, debt relief for these countries will amount to US$40 billion in net present value terms – almost two-thirds of their total debt. As many as 37 countries are expected eventually to benefit from debt reduction under the Initiative.

While this is very encouraging, there are factors that may prevent the HIPC Initiative from delivering the debt reduction it has promised:

- not all creditors have agreed to reduce their HIPC debts;
- the expected financing needs of the Initiative have not been fully met;
- as a result of weaker growth and export commodity prices, a number of countries could be at risk of not having sustainable debt loads at the Completion Point.

In our discussions we agreed to take action to address these three issues.

A. Securing the participation of all creditors

To provide information on the participation of all creditors, we agreed to call on the International Monetary Fund (IMF) and World Bank to:

a. include, in HIPCs' Poverty Reduction and Growth Facility reviews and Completion Point documents, more detailed information on the respective countries' success in obtaining comparable treatment;

b. post comprehensive information on creditor participation on the Bank and Fund Web sites, including creditors' explanations for non-participation.

We will ask the IMF and World Bank to continue to work with regional and small multilateral development institutions to encourage and facilitate their participation in the Initiative. We will also write to the Boards of those institutions that have not yet committed to participate in order to ask them to take part in the Initiative. Furthermore, we will encourage those multilateral institutions that are late in providing debt relief to accelerate their efforts.

Noting the importance of commercial creditor participation, we agreed to ask the World Bank and IMF to prepare a comprehensive report on legal action brought against HIPCs by non-participating creditors, including by commercial creditors, and on options for HIPCs to obtain technical assistance to facilitate resolution of disputes. We further agreed to ask the IMF and World Bank to continue to encourage bilateral creditors not to sell their claims on HIPCs in the secondary debt market.

As far as non-Paris Club official bilateral creditors are concerned, we will ask the IMF and World Bank to encourage creditors who are members of the two organizations to participate fully in the HIPC Initiative, particularly relatively wealthy creditors that have a significant amount of claims.

In addition, we will urge the IMF to identify creditor countries' participation in the Initiative ahead of any debt rescheduling with the Paris Club. We will also ask the Chair of the Paris Club to consider inviting, on a case-by-case basis, non-member official creditors to participate in its negotiations with HIPC countries on the understanding that these creditors will join a satisfactory consensus and will abide by Paris Club principles.

We agreed to ask the IMF and World Bank to include participation in the HIPC Initiative in reporting under Article IV as well as other Fund and Bank documents.

We will explore means of approaching creditors that are not IMF/World Bank members to encourage them to participate in the Initiative.

B. Completing the financing of the HIPC Initiative

We acknowledged the threat to sustainable exit from debt due to under-financing of the Initiative and we committed to work with other donor countries and the international financial institutions (IFIs) to address this issue.

We will also call upon the multilateral development banks to continue to make best efforts to identify internal resources to contribute to the financing of the HIPC Initiative.

C. Debt sustainability at the Completion Point

We will ask the IMF and World Bank to ensure that the comprehensive review of debt sustainability being prepared for the Annual Meetings includes an assessment of the methodology for assessing the need for, and amount of, additional assistance (or topping up) at the Completion Point. We committed to work with other donor countries and IFIs to ensure that the need for financial resources for this purpose is met.

Going forward, IFIs need to ensure that forecasts of debt sustainability are made on the basis of prudent and cautious assumptions about growth and exports.

Finally, we agreed on the need for bilateral donors to consider financing HIPCs and HIPC "graduates" primarily through grants for a sustained period, and to refrain from supporting unproductive expenditures. We will also call upon multilateral development funds – which are in many cases the main creditors of HIPCs – to make appropriate use of grants in delivering assistance to HIPCs and HIPC graduates.