



IDA13

**“ASSISTANCE TO POST-CONFLICT COUNTRIES AND THE HIPC
FRAMEWORK”**

**EXTRACTS FROM APRIL 2001 DEVELOPMENT COMMITTEE COMMUNIQUE
AND MEMBERS’ STATEMENTS**

International Development Association

May 2001

**EXTRACTS FROM APRIL 2001 DEVELOPMENT COMMITTEE COMMUNIQUE
AND MEMBERS' STATEMENTS ON
"ASSISTANCE TO POST-CONFLICT COUNTRIES AND THE HIPC FRAMEWORK"**

This note pulls together extracts from statements prepared for the April 2001 meeting of the Development Committee relating to the paper entitled *Assistance to Post-Conflict Countries and the HIPC Framework* (DC 2001-0014, April 20, 2001), which was prepared jointly by the staffs of the World Bank and the IMF and discussed at Joint IMFC and Development Committee.

These extracts only contain parts of Ministers' statements relevant to post-conflict countries. Some Ministers did not comment on this issue in their statements.

It is hoped that this note provides useful information as background to IDA Deputies' deliberations on ways to improve assistance to post-conflict countries.

INDEX

	<u>Page</u>
Joint Communique – IMFC and Development Committee	4
<u>Statement by:</u>	
Australia	4
Canada	5
Germany	5
Italy	7
Japan	7
Malaysia	7
Namibia	8
Russia	8
United Kingdom	9

Joint Communiqué – IMFC and Development Committee

Conflict remains a major obstacle to improving the lives of millions, especially in Africa. Helping countries resolve conflicts and reestablish the basis for economic and social progress is a critical priority for the international community. Large protracted arrears pose special challenges for several conflict-affected countries. As many of these countries are poor and heavily indebted, we welcome the work done by the Bank and Fund to further enhance their capacity to assist them, including through debt relief. We welcome the IMF's efforts to put its emergency post-conflict assistance on concessional terms. We agree on the importance of maintaining a strong focus on performance, including transparency in military spending to ensure that debt relief is used to reduce poverty and is not diverted to military spending. We agree that the enhanced HIPC Initiative framework has sufficient flexibility to accommodate the special circumstances of post-conflict HIPCs, including with regard to the length of the track record if significant progress has been made towards macroeconomic stability, governance, capacity building, and monitoring. More broadly, post-conflict countries in the process of recovery will also require substantial technical and capacity building assistance. We agree there is scope for such increased Bank and Fund assistance to support rebuilding in these countries, and we call on both institutions to work in close collaboration with the United Nations System in these efforts so as to ensure full use of the specialized skills that these agencies possess.

Ministers' Statements:

Peter Costello, MP, Treasurer, Australia

On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands (Republic of), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu

Many of the countries remaining to be considered under the enhanced HIPC initiative are seriously affected by conflict. It is important that the Bank and the Fund join international efforts to engage countries as they emerge from conflict in areas where their combined experience and expertise is most relevant. In particular, post-conflict countries have a pressing need for technical assistance to rapidly restore the critical functions of government. In this regard, the Bank and Fund, in consultation with other donors, can play a crucial role in supporting post-conflict countries through assessing and planning their technical assistance needs. The Fund and Bank will also need to explore flexible mechanisms to deal with issues such as the clearance of arrears so they can assist with reconstruction and, where appropriate, clear the way for debt relief.

These situations pose particular challenges, and while the policies of the Fund and Bank are sufficiently flexible for assisting these countries, we recognize that there are areas where they can be enhanced. In particular, we welcome the Managing Director's initiative to establish a multi-donor administered account to provide interest subsidies for the Fund's emergency post-conflict assistance. In bringing post-conflict HIPC countries to decision points – where they become eligible for debt relief – it will be essential to balance the need for early debt relief with the necessity for an established track record and assurances that the resources freed will

be used for poverty alleviation. Furthermore, treatment of these countries should be comparable to other HIPC countries. We need to be careful, therefore, to ensure that decisions on final relief at the completion point are taken when they can be soundly based on a demonstrated track record and when economic data are not unduly distorted by conflict conditions.

The Bank and Fund also have a role to play in providing support for post-conflict countries outside the HIPC initiative. The World Bank has played an especially effective role in East Timor in coordinating donor activities as well as through the establishment of a trust fund. This helped to leverage considerable donor funds for the reconstruction effort. The task in East Timor remains large, as it requires re-establishing basic economic and financial systems, but is essential for reducing poverty and providing the foundations for future economic growth and prosperity.

Paul Martin, Minister of Finance, Canada

On behalf of Antigua/Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Guyana, Grenada, Ireland, Jamaica, St. Kitts/Nevis, St. Lucia, St. Vincent/The Grenadines

The HIPC countries that have already reached their Decision Points are, in many respects, the easiest cases. Those HIPC countries that have yet to reach their Decision Points pose additional and difficult challenges. Ten are either in or are emerging from conflict. Post-conflict HIPCs have had neither the time nor the opportunity to establish any governance, poverty reduction or economic policy track records.

We welcome efforts by both the Fund and the Bank to provide technical assistance to post-conflict HIPC countries. We recognize the difficult task that these institutions will have to perform in applying the HIPC framework to post-conflict countries. On the one hand, the capacities of these countries to use resources effectively may be limited and such resources could be diverted to either directly or indirectly supporting high military spending. On the other hand, however, the needs of their populations are great, and quick action satisfying those needs may represent the best hope for lasting peace. Can we really ask them to wait for three years or more for their HIPC decision point? The Bank and Fund need to work closely with others, and especially the United Nations, to determine on a case-by-case basis the appropriateness and scale of support.

Canada believes that the debt moratorium it advocated in September in Prague and implemented in January might be one way to help resolve this dilemma. Canada has extended its moratorium only to those countries that are committed to peaceful development and good governance. We can and will extend our moratorium to countries currently in conflict once those conflicts have ended and when their governments have demonstrated their commitments to these ideals whether or not they have reached a HIPC decision point. Canada urges other bilateral donors to do likewise.

**Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and
Development, Germany**

The issue of suitable forms of support to post-conflict countries and their inclusion in the Enhanced HIPC Initiative are topics which are closely linked with each other.

We must definitely be aware that the pace of implementation of the Enhanced HIPC Initiative cannot be maintained if countries which would, in terms of figures, be eligible for debt relief are experiencing long-standing, mostly internal, military strife. In many countries, there are also violations of fundamental human rights. Granting debt relief in such a situation would neither stand a chance of making a sustainable contribution to poverty reduction nor would it be justifiable to our taxpayers. Rather, what is needed here are political initiatives to develop mechanisms for peaceful conflict resolution. Only if the conflict is resolved politically will there be a basis for reconstruction of the country and for sustainable development and poverty reduction.

Once a certain degree of stability and peace has been reached, however, donors and creditors must not let the window of opportunity pass, they need to provide flexible and quick support for reconstruction. The World Bank found that 50% of post-conflict countries are faced with renewed conflict within 10 years. This means that 50% of these countries are simultaneously *pre*-conflict countries. We need to act upon our moral responsibility and become active to prevent this forecast from becoming a reality in future. Efforts to foster democratization play a special role here, since it is well known that democracies are much more rarely involved in conflicts than dictatorships. By supporting sustainable, socially equitable development, the Bank also gains an important function with a view to conflict prevention. Projects and programs which are supported with World Bank Group instruments should therefore be subjected to an ex-ante assessment of their impact on potential conflicts.

Support to post-conflict countries requires a mix of providing new funding and resolving debt problems. Ways must be found to resolve payment arrears, which should however not delay the provision of assistance. Another goal should be to make available appropriate resources for a consistent program of political and economic reconstruction. Since each post-conflict country is faced with a different situation, we support case-by-case solutions for the settlement of arrears. New assistance should be provided on the most concessional terms possible. We therefore also take a positive view of making more flexible use of IDA grants for post-conflict countries. For regular IDA borrowing to be started, there should be a system, tailored to the situation of post-conflict countries, for analyzing and assessing the quality of the country's policies and institutions (Country Performance and Institutional Assessment System).

For most post-conflict countries, the Enhance HIPC Initiative offers an important long-term opportunity. However, we should not overestimate its short-term impact. As can be seen from the existing arrears, many post-conflict countries have *de facto* paid hardly any debt service at all over the past few years. This is why debt relief frees up barely any budget funds on paid basis. Yet in order to reduce payment due it is important to launch the HIPC debt relief

procedure. We therefore support the proposals that have been made for a shorter track record of reform programs needed prior to the decision point.

In parallel, the PRSP process should be started as quickly as possible. I believe that the participation of civil society, including what used to be the conflicting parties, is almost even more important for post-conflict countries than generally. The drafting of PRSPs thus also offers a potential, through the dialogue it involves, for building a more stable foundation for what is in many cases a fragile peace.

Antonio Fazio, Governor of the World Bank for Italy, Italy

Looking to the future the first challenge is to ensure that all eligible countries can benefit from debt relief. This will not be an easy task. Most of these countries are or have been affected by conflicts. An active and early engagement in post-conflict situations by the Bretton Woods Institutions is crucial to consolidate peace but will require strong assurances about the peaceful solution of the conflict. Enhanced collaboration with UN agencies will be essential in this context. Bretton Woods Institutions should support post-conflict countries through a comprehensive strategy that encompasses concessional finance, debt relief, and technical assistance. We thus support the mobilization of additional resources through a new technical assistance fund for the IMF and an enhanced Post-conflict Fund for the World Bank, which may leverage additional donor resources. To ensure that all the elements of the initiative – most notably the fight against poverty – are in place, a rigorous application of the HIPC framework must be ensured. Essential conditions have to be in place, such as a reduction in military expenditures, a clear schedule for demobilization, and full transparency in the management of public expenditures.

Haruhiko Kuroda, Vice Minister of Finance for International Affairs, Japan

With regard to the enhanced HIPC Initiative, as many as 22 countries have so far reached decision points. It is expected that these countries will demonstrate their ability to reduce poverty, and will reach completion points at the earliest possible time to make significant progress in their fight against poverty. In further implementing the enhanced HIPC Initiative, our challenge is how to embrace countries in, or emerging from, conflict under the Initiative. For that, it is essential to fully consider the special circumstances of these countries, and to take a case-by-case approach, while maintaining the Initiative's core framework that links debt relief with poverty reduction. In this respect, strengthening support for governments' capacity building, including public sector management, should be effective. In addressing the issues of post-conflict countries, I must point out that collaboration with other partners will be extremely important. Collaborating with the United Nation agencies' peace process and humanitarian assistance would be one such example.

Dato' Chan Kong Choy, Deputy Minister of Finance II, Malaysia

On behalf of Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam

While significant progress has been made with respect to the enhanced HIPC initiative, the real challenge is to help the HIPC-eligible countries which have been affected by conflicts move sooner towards decision point and begin receiving debt relief. We welcome the proposal to accelerate the delivery of HIPC assistance to post-conflict countries based on a shorter track record for decision point, but compensating with a longer period for completion point. We, however, share similar concern with regard to the practicality of front-loading assistance where there is limited absorption capacity of post-conflict countries because we feel that the amount of debt relief should be commensurate with the capacity to implement reforms and the progress made by the government before subsequent approvals of assistance.

There is a need to monitor not only expenditure spending but the stability of the operating environment itself. The greatest risk is post-conflict countries reverting into conflict. Financial assistance for demilitarization and programs for integrating ex-military personnel into the economic and social strata must integrate with efforts to rebuild the economy.

Nangolo Mbumba, Minister of Finance, Namibia

On behalf of Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Armed conflicts are a major impediment to the development of many low-income countries, leading to the destruction of infrastructure, the disruption of economic activity, displacement of populations and the likelihood for the rapid spread of diseases. Conflicts affect directly or indirectly almost half of all Sub-Saharan African countries and the lives of one out of five Africans. Most of these countries are also heavily-indebted, often with arrears to the international financial institutions. Top priority must be given to conflict prevention and conflict resolution if the strategy for growth and poverty reduction is to succeed. To this end, domestic and regional interventions must complement global and institutional efforts to prevent and resolve conflicts.

We would like to urge the Bank and the Fund to further enhance special policies and instruments currently in place to assist countries emerging from conflict. The substantial technical assistance needs of these countries must be met by enhancing the Post-Conflict Fund, broadening the scope of IDA grants, and helping to mobilize donor funding. The HIPC framework will also need to be implemented flexibly so as to accommodate the special circumstances of post-conflict countries by shortening the track record required for both the decision point and the floating completion point, and by front-loading interim assistance. Post-Conflict HIPC countries face special difficulty in preparing PRSPs and in meeting the implementation requirements of PRGFs and PRSCs, and will need flexibility and support for capacity building. Post-Conflict countries in arrears deserve particular consideration, and we urge the Bank and Fund, in collaboration with their development partners to seek effective

measures for addressing the special needs of these countries, especially those with significant per capita arrears.

Aleksei Kudrin, Minister of Finance, Russian Federation

Substantial progress has been made recently in implementing the Initiative for Highly Indebted Poor Countries. A substantial reduction in the debt burden on their economies and budgets is creating favorable conditions for the redistribution of resources to finance development programs aimed at fighting poverty.

We generally share the desire of the Bank and the Fund to apply the HIPC framework for providing emergency assistance to post-conflict countries. However, the situation in these countries is marked by a high degree of uncertainty, and the danger of new outbreaks of instability makes it essential to proceed with the utmost caution. Institutional weakness in these countries is also a major obstacle to large-scale financial assistance.

In light of these factors, we believe it is fairly risky to soften conditions for HIPC decision point, especially with regard to reducing the track record requirements for macroeconomic stabilization from three years to 18 months. Combined with a serious increase in interim relief, which could potentially reach 75 percent of the total debt reduction, this approach can erode credibility and financial sustainability of the Initiative. Therefore, we cannot agree with this approach in principle. I believe that it is possible for a country to move to the Initiative decision point on an accelerated basis only in exceptional cases, and only with a corresponding extension of the interim period up to the completion point.

New risks have manifested themselves recently threatening the achievement of the Initiative's goals with particular vehemence, and we believe that they were not duly taken into account at previous stages of the Initiative. We are especially concerned that HIPC countries – including those that have implemented substantial reforms – may get drawn into regional conflicts. In this context, the challenges of implementing the Initiative are intertwined with issues of post-conflict assistance, further complicating the situation. Under these circumstances, additional demands for financial resources in excess of current estimates may emerge.

This leads us to the even more serious issue of funding the Initiative. Financial implications of providing HIPC relief to just three post-conflict countries would lead to a sharp rise in the overall cost of implementing the Initiative. If one considers the possibility of covering ten more countries, the gap between the original estimate of HIPC costs and its actual implementation costs would expand very rapidly. This situation requires an exceptionally sober and realistic look at the possibilities and prospects of the Initiative.

We also welcome the fact that the World Bank and the IMF have finally taken steps to discuss how to prevent another increase in external debt of countries that have received assistance under the Initiative. There is no doubt that proper macroeconomic and structural policies by these countries will play a central role in this effort. At the same time, they have an objective need for external financial resources, including borrowing on commercial terms, including e.g. for trade finance purposes.

**Clare Short MP, Secretary of State for International Development and
Gordon Brown MP, Chancellor of the Exchequer, United Kingdom**

It is with regret and concern that we note the number of countries still affected by conflict, and the huge costs of this carried by the poor. It is essential that we demonstrate to countries in conflict a clear route to re-engagement with the international community and renewed assistance, following a peace agreement. The window of opportunity in the immediate post conflict periods is often short-lived. It is critical to demonstrate to the population a clear peace dividend, to lessen the risks of hostilities re-emerging.

All of us have our part to play, and we welcome the paper “Assistance to Post Conflict Countries and the HIPC Framework”, about the role of the World Bank and IMF. We underline the importance of the Bank and the Fund ensuring that sufficient, high quality staff resources are allocated to this work; and to work closely with the relevant UN agencies. The proposal to make IMF post-conflict emergency assistance available on concessional terms is welcome.

One of the major blockages to the IMF and World Bank providing rapid assistance in the post conflict environment is arrears, which also act as a barrier to qualifying for debt relief. While we recognize that there are important issues of track record, moral hazard and equity of treatment which the Fund and Bank must consider, it is also important that arrears do not constrain a country’s efforts towards peace and poverty reduction. We must keep working to derive imaginative solutions to these issues on a case by case basis.