



Commonwealth HIPC Ministerial Forum

Cinnamon Grand Hotel, Colombo, Sri Lanka, 12 September 2006

CHAIRPERSON'S STATEMENT

The Commonwealth HIPC Ministerial Forum held its tenth meeting on 12 September 2006 in Colombo, Sri Lanka, prior to the September 2006 Commonwealth Finance Ministers Meeting. Finance Ministers from Gambia, Cameroon, Ghana, Malawi, Mozambique, Sierra Leone, United Republic of Tanzania, Uganda and Zambia attended. In addition, representatives from Australia, Britain, Canada and New Zealand attended the meeting by special invitation. The meeting followed a substantive ninth meeting of the Forum held in Livingstone, Zambia on 10-12 April 2006.

2. Ministers reviewed developments and the progress made on their recommendations since the Livingstone Meeting. They noted that the Livingstone Ministerial Statement had been forwarded by the Chair to all Commonwealth Finance Ministers, the joint IMF/World Bank Development Committee, the IMF's International Monetary and Finance Committee, the African Development Bank and the aid departments/agencies of Australia, Britain, Canada and New Zealand.

Implementation of the HIPC Initiative

3. Ministers were pleased that Cameroon and Malawi had become the 19th and 20th HIPCs to reach the completion point and hoped that it would be joined soon by Sao Tome and Principe and Sierra Leone. They also hoped that, following a satisfactory macroeconomic programme and PRSP implementation, all other decision point countries, including the Gambia, would reach their completion points as soon as possible.

4. Ministers noted the final list of eleven ring-fenced, potentially eligible, HIPCs. But they were concerned that five of them, mostly conflict affected and protracted arrears cases, had not had any IMF programme since October 1996 and would have great difficulties in beginning an IMF programme before the end of the sunset clause in December 2006. They reiterated the need for the abolition of the sunset clause. They further urged increased flexibility in establishing a track record of performance and formulating a poverty reduction strategy for all the ring fenced countries to reach the decision point.

5. Ministers remained very concerned about non-participation or lack of full participation in the Initiative by the vast majority of non-Paris Club creditors and reiterated the need for collective diplomatic initiatives from the Bretton Woods Institutions, key donors and HIPCs themselves in addressing this problem. They were also acutely concerned about creditor litigation, but were pleased that Commonwealth Secretariat has now established a clinic that would assist countries obtain rapid reaction legal assistance.

Multilateral Debt Relief Initiative (MDRI)

6. Ministers welcomed the implementation of the MDRI relief by both the IMF and IDA, noting that relief had now been approved for all 20 Completion Point HIPCs (including Mauritania which was initially excluded).

7. Ministers reiterated their uneasiness about the IMF's apparently unintended non-uniform treatment between pre-completion point HIPCs with a per capita income of US\$380 and below vis-à-vis their non-HIPC counterparts, Cambodia and Tajikistan, in the use of the IMF's own SDA resources that strictly require uniformity of treatment in their utilization. They restated their recommendation that those HIPCs with per capita income of \$380 and below be put on the same footing as the two non-HIPCs which were given fast track MDRI relief after a one-time conditionality check.

8. Restating their disquiet with IDA shifting the cut off date of eligible debts from end-2004 to end-2003 and choosing the implementation date of July 2006 which had resulted in a significant loss of debt relief for HIPCs, Ministers underlined the importance of consistency between institutions and called on the IDA to re-consider its stand and on donors to provide adequate funding to IDA to do so. They also reiterated their call for adequate donor funding to fully compensate IDA for its share of MDRI on an ongoing basis to protect IDA's financial standing and ability to assist low-income countries (LICs). They re-emphasised their concern about using the existing performance-based formula for allocating additional contributions which donors have pledged to compensate IDA for MDRI and recommended that the need to achieve Millennium Development Goals (MDGs) (highlighted in the G8 proposal) be weighted equally with country performance ratings in the formula for allocating these additional contributions.

9. Ministers noted the delay in MDRI implementation by the AfDF and urged donors to speedily provide adequate resources for it to meet its effectiveness thresholds. They also urged the Inter-American Development Bank to promptly complete its study with a view to early participation in the MDRI.

10. Noting that pre-completion point HIPCs could have fully or partially repaid debts that are eligible for MDRI relief before they reach the completion point, Ministers stressed exploration of all options highlighted in their Livingstone Statement. These include delivery of MDRI to take retroactive effect from a particular common date with the refund of repayments made on eligible debts after that date, streamlining of IMF conditionality with a view to speeding up the process of reaching the completion point, and separation of eligibility for MDRI from prior attainment of the completion point of the HIPC Initiative by writing off immediately by the Fund, IDA and AfDF of their own portions of the remaining slice that would have been left after deemed or counterfactual relief under the HIPC Initiative.

11. Ministers reiterated that, for reasons of equity, the scope of the MDRI be widened to include all IDA-only countries (including those which do not qualify for HIPC relief because their indebtedness ratios are below the HIPC thresholds). They again stressed the need for comprehensive solutions to the debt problems of countries other than IDA only, especially highly indebted small states, which face special challenges.

Exogenous Shocks Facility (ESF)

12. Ministers again welcomed the establishment of the concessional ESF in the IMF, but reiterated the concerns about its shortcomings and the need firstly for its close monitoring particularly to ensure that its conditionality and limited access do not stifle much needed assistance and compel countries to borrow at terms which may pose a danger to the future debt sustainability. They also called for the IMF to consult beneficiary countries on the scope, design and implementation of the ESF to ensure that it meets their needs. In addition they reiterated the need for strengthened mechanisms in the IMF for catalysing shock mitigating assistance from other donors as well as the need for parallel exogenous shock facilities in the IDA and the AfDF.

IMF/World Bank Debt Sustainability Framework (DSF)

13. Ministers noted the increasing number of joint Fund/Bank debt sustainability analyses (DSAs) being carried out, mostly with explicit debt distress ratings and hoped that it would be possible to undertake such DSAs for all LICs, with the latter's active involvement. Ministers also noted that IDA, which was using debt distress risk based on "traffic light" signals as a sole criterion for IDA grants under IDA-14, is to further examine introducing more calibrated risk assessment as part of the IDA-14 review at end-2006. Moreover, they noted that the AfDF is also using debt sustainability assessments for grant allocation and urged all regional development banks to do so. Noting the limited use of DSAs by bilateral creditors, Ministers agreed on the need for easier access to stand alone DSAs with a view to facilitating greater donor co-ordination to ensure debt sustainability in all LICs.

14. Ministers recognised that sharply lower debt burdens and improved sovereign credit risk created potential for new borrowing on non-concessional terms and especially for some lenders to over-lend and engage in free-rider behaviour, secure in the knowledge that MDRI relief and prospect of future IDA grants would cover future debt servicing. They reiterated the need, therefore, for prudent borrowing policies and debt management strategies by all LICs.

15. Ministers reiterated their concern about the domestic debt burden and repeated their call on the Commonwealth to play a leading role in the advocacy for comprehensive approach to address both domestic and foreign debt within the context of the DSF. In this respect, they were heartened by the inclusion of public domestic debt in a number of DSAs and the call by the IMF Executive Board to recognise such debt in DSAs, where it accounts for a significant proportion of a country's debt, and to flag cases where debt distress classification would be different on the basis of external debt alone. They looked forward to further work in this area. They also called on the Commonwealth Secretariat to explore new and innovative ideas for solving domestic debt problems of the affected countries so as to create adequate fiscal space for attainment of the MDGs.

16. Ministers viewed with alarm the suspension of Doha Round of Trade negotiations and reiterated the need for the early delivery of its developmental dimension, as this could lead to substantial expansion of exports for developing countries as a whole and hence their debt carrying capacity. Recognising particularly the uncertainties faced by many HIPC/LICs suffering preference erosion which could impact on their debt sustainability, Ministers underscored the importance of continued assistance to these countries over a long period of time to manage the transition.

Improving the Quality of Debt Data in HIPCs

17. Ministers recalled their discussion in Livingstone on constraints to improving the quality of debt data and debt management. Noting that problems were largely country-specific, they recommitted themselves to address them at the level of their individual countries, with the assistance of the Commonwealth Secretariat and other relevant bodies. They also called for exploration of possibilities of securing adequate resources dedicated to support capacity building programmes on improving the quality of data and debt management, in particular through future replenishments of IDA and AfDF resources.

Way Forward on Future CHMF Meetings

18. Ministers noted their discussion in Livingstone on the rationale for continuing their meetings and their agreement that there still remained significant outstanding issues in the implementation of the HIPC Initiative, MDRI, the ESF and the DSF, which CHMF needs to assess critically and monitor on an ongoing basis. They also recalled their agreement that the theme of Ensuring Debt Sustainability and Achieving the MDGs, which had guided all their meetings since Lilongwe, continued to remain appropriate, but that in the future, achievement of MDGs should be seen as the prime objective, with debt sustainability taken as an important binding constraint. They also reiterated that the focus of influencing key IMF/World Bank decision-making bodies remained appropriate, while seeking wider support from all Commonwealth Finance Ministers.

19. Ministers noted that with Bangladesh, Sri Lanka and Tonga, either not qualifying or declining HIPC status, the current membership of CHMF would remain. For reasons elaborated in Livingstone, they welcomed continued participation at their substantive meetings of representatives of four Commonwealth donors, IMF, World Bank and African Development Bank; the civil society; parliamentarians; and capacity building institutions such as MEFMI and WAIFEM. They also mandated the Chairperson to explore the feasibility of expanding the Forum to include all Francophone HIPCs.

20. Ministers recalled their discussion in Livingstone on the options with respect to timing of future meetings. Beyond 2006, they agreed to continue with the current practice of meeting twice, with a substantive one day meeting in Washington just prior to the Spring Bank/Fund meetings and another meeting in the margins of the Commonwealth Finance Ministers Meeting as at present.

Conclusion and Appreciation

21. Ministers expressed their appreciation to the government and people of Sri Lanka for their warm hospitality and for the excellent arrangements for the Meeting.

22. Ministers agreed that at the next meeting the rotating Chair would pass to Ghana.

23. Ministers agreed that the Chairperson should present this Statement to the Commonwealth Finance Ministers' Meeting on 13 September.

**Colombo, Sri Lanka
12 September 2006**