



Commonwealth HIPC Ministerial Forum

Livingstone, Zambia, 10-12 April 2006

MINISTERIAL STATEMENT

1. The Commonwealth HIPC Ministerial Forum held its ninth meeting on 10-12 April 2006 in Livingstone, Zambia. Finance Ministers or their representatives from the Cameroon, Ghana, Mozambique, Sierra Leone, United Republic of Tanzania, Uganda and Zambia attended. In addition, representatives from Kenya, The United Kingdom, Burundi, Madagascar, Niger, the IMF, African Development Bank, WAIFEM, MEFMI, the Organisation Internationale de la Francophonie (OIF), as well as the Commonwealth Foundation and Civil Society attended by special invitation.

2. Ministers applauded the steadfast stewardship provided to the Forum since the Maputo meeting by the outgoing Chairperson, Hon Manuel Chang, Minister of Finance, Republic of Mozambique, and congratulated Hon Ng'andu Magande, Minister of Finance, Republic of Zambia, on assuming the Chair.

3. Ministers focused their discussion on the Multilateral Debt Relief Initiative (MDRI), the Exogenous Shocks Facility (ESF), the IMF/World Bank Debt Sustainability Framework (DSF) in the post-Gleneagles environment, and improving the quality of debt data. With the impending cancellation of most of their debt through the HIPC Initiative and the MDRI, Ministers also undertook a major review of the rationale for continuing the Forum in the present format.

Multilateral Debt Relief Initiative (MDRI)

4. Ministers welcomed the establishment of the MDRI, following the G8 proposal for the cancellation of 100 per cent of HIPC debt claims of the IMF, IDA and African Development Fund (AfDF).

5. Ministers were pleased that the IMF had already approved MDRI treatment for 17 of the 18 Completion Point HIPCs (including six Commonwealth HIPCs) as well as two non-HIPCs with per capita income below \$380 and urged speedy approval for Mauritania following the completion of its six month Staff Monitored Programme. They called for immediate application of the MDRI to all Decision Point HIPCs once they reach the Completion Point as they would have already demonstrated good performance. They also called for the provision of adequate resources to the IMF to fully fund IMF debt cancellation for all potentially eligible HIPCs.

6. Ministers noted with concern the 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 utilisation. Currently non-HIPCs were given fast track MDRI relief after one type conditionality check, while HIPCs are required to reach HIPC completion point before qualifying for MDRI, by which time they could also have completed the debt repayment to the IMF. Ministers, therefore, recommended that those HIPCs with per capita income of \$380 and below be put on the same footing as the two non-HIPCs by providing fast track MDRI treatment.

7. Ministers were concerned that, unlike the IMF and AfDF, IDA had shifted the cut off date of eligible debts from end-2004 to end-2003 and chosen the implementation date of July 2006 which would result in a significant loss of debt relief for HIPCs. They underlined the importance of consistency between institutions and called on the IDA to re-consider its stand on cut-off and implementation dates and on donors to provide adequate funding for IDA to do so. They further called for adequate donor funding to fully compensate IDA for its share of MDRI on an ongoing basis to protect IDA's financial standing and its ability to assist low-income countries (LICs).

8. Ministers noted that before additional contributions are taken into account, MDRI relief from IDA does not affect net resource transfers from IDA to all beneficiary countries (HIPCs and non-HIPCs), due to the netting off mechanism. They were, however, concerned about using existing performance-based formula for allocating additional contributions which donors have pledged to make to compensate IDA for MDRI, given that the central objective of the G8 proposal that led to MDRI was to achieve the Millennium Development Goals (MDGs). They, therefore, strongly recommended that the need to achieve MDGs be weighted equally with country performance ratings in the formula for allocating these additional contributions.

9. Ministers commended the AfDF for its speedy implementation of the MDRI by AfDF and called on donors to ensure that funds for debt relief are additional to the regular replenishments for the AfDF. They reiterated the need to cancel the debt owed by four Latin American and Caribbean HIPCs to the Inter-American Development Bank for reasons of equity, and urged similar cancellation for the debt owed by potentially eligible Asian economies to the Asian Development Bank. Ministers also called for appropriate follow up initiatives that could lead to further debt relief by other multilateral institutions and for permanent solutions to the problems of bilateral and commercial debts.

10. Ministers noted that for pre-completion point HIPCs, delivery of the MDRI relief would only become effective once a country attains the completion point under the HIPC Initiative, by which time the debts that are eligible for MDRI relief could have been fully or partially repaid. To remedy the situation, they called for exploration of a number of options including 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 a deemed or counterfactual relief under the HIPC Initiative.

11. Ministers reiterated the need for the extension of the sunset clause so that all potentially eligible HIPCs get sufficient time to qualify for HIPC debt relief and by implication MDRI. They also recommended 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 further 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 welcomed the establishment of the concessional ESF, within the PRGF Trust in the IMF. They were, however, concerned that the ESF had a number of shortcomings that needed addressing if it was to be a useful mechanism to provide quick disbursing temporary concessional assistance to LICs facing exogenous shocks. These included the restrictive eligibility of the facility to only PRGF eligible countries which did not have PRGF arrangements in place, the time consuming need to prepare a PRSP or its variant as well as upper credit tranche conditionality which may prevent its full realisation, ESF's short duration which may not be adequate for many types of shocks, insufficient access for most types of shocks, and inability to provide grant financing which could be particularly appropriate for more permanent shocks. Ministers called for the close monitoring of the working of the ESF, particularly to ensure that its conditionality and limited access do not stifle much needed assistance and driving countries to borrow at terms which may pose a danger to the future debt sustainability. They also emphasised the desirability of the IMF carrying out a thorough consultation with the intended beneficiaries of the ESF to ensure that the ESF reflects their needs and does not suffer the fate of low patronage that has characterised IMF's previous shock-mitigating facilities. They urged strengthened mechanisms in the IMF for catalysing shock mitigating assistance from other donors. Ministers reiterated the need for parallel exogenous shock facilities in the IDA and the AfDF.

IMF/World Bank Debt Sustainability Framework (DSF) in the Post-Gleneagles Environment

13. Ministers noted that with the implementation of the MDRI, the average NPV external debt to export ratio for the 18 completion point HIPCs is projected to fall substantially from 140 per cent to under 60 per cent. Nonetheless, Ministers agreed that the DSF remained of continuing relevance, particularly for determining debt distress possibilities and grant/credit allocations. Individual country ratios vary substantially, possibly putting some completion point HIPCs close to their DSF thresholds for debt distress. Moreover, it could take a number of years for decision point HIPCs and especially for potentially eligible HIPCs to reach the completion point and therefore benefit from HIPC and MDRI relief; in the meantime they would be servicing a significant proportion of their debt. Further, DSF was applicable not only to HIPCs, but all LICs. Finally, DSF was forward looking, so that outcomes with respect to future borrowing and exports were important in determining debt distress possibilities.

14. Ministers recognised that with the fiscal and borrowing space created by the MDRI, HIPCs could take on borrowing at non-concessional terms in a bid to achieve the MDGs as governments took advantage of their upgraded sovereign credit risk. This could expose and aggravate weaknesses in LICs' capacity for project evaluation and financial management. They agreed on the need for careful management of such non-concessional borrowing. They were particularly heartened by the aid pledges made at the Gleneagles Summit, which is estimated to increase concessional resources by over \$50 billion a year by 2010 compared to

2004. This provided an opportunity for LICs to achieve MDGs, while ensuring debt sustainability. They recognised the need for aligning their country owned PRSPs or equivalent documents with achievement of MDGs and called on the donors to translate their pledges into commitments and disbursements and to anchor and harmonise their assistance with these country owned strategies. They also restated the need for 100 per cent grant financing by all DAC donors to all LICs, continuation of grant allocation mechanisms in IDA and the concessional windows of the regional development banks, and effective donor co-ordination to ensure debt sustainability in all LICs.

15. Ministers reiterated their concern about the domestic debt burden, which was curtailing development prospects in a manner that could undermine political stability and repeated their call on the Commonwealth to play a leading role in the advocacy for the comprehensive approach to address and treat the domestic and foreign debt equally within the context of the new debt sustainability framework.

16. Ministers emphasised the importance of the early conclusion of the Doha Round of trade negotiations that could lead to substantial expansion of exports for developing countries as a whole. Recognising 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 to manage the transition.

Improving the Quality of Debt Data in HIPCs

17. Ministers noted the various constraints to improving the quality of debt data and debt management as identified by the Commonwealth Secretariat in the course of implementing its Debt Management Programme. In view of the importance of having accurate debt data and statistics, they discussed various ways of overcoming the challenges. As the solutions to the problems were largely country-specific, they expressed their commitment to address them at the level of their individual countries, with the assistance of the Commonwealth Secretariat as well as other relevant bodies such as WAIFEM, MEFMI and DRI with support from international agencies, in particular the World Bank, the IMF and African Development Bank.

18. Taking into account the requirements of the forward looking debt sustainability analysis in a Post-Gleneagles environment, and the need to prevent or avert the free-rider issues, Ministers agreed to look into the possibility of securing adequate resources dedicated to support capacity building programmes on debt management, in particular through future replenishments of IDA and AfDF resources. This will be crucial to step up and deepen actions and initiatives to improve quality and extend the availability of debt data and reporting in HIPCs. The combined effect of this proposal will be to promote transparency, accountability and good governance in support of the creation of a conducive environment to ensure an effective and efficient implementation of the MDRI.

Way Forward on Future CHMF Meetings

Objectives and Strategies for Future Meetings

19. Ministers discussed the rationale for continuing their meetings in the post-Gleneagles environment, especially in the current format. They noted that there still remained significant outstanding issues in the implementation of the HIPC Initiative, namely the difficulty of

establishing a track record by decision point countries to reach the completion point; the problem for potentially eligible HIPC's, many of them conflict affected, to reach the decision point and start the IMF programme before the end of the sunset clause at end-2006; and the problems of non-participation of many non-Paris Club creditors and of creditor litigation, on both of which there have been major setbacks. There are also a number of issues in the implementation of the MDRI, the ESF and the DSF, which CHMF needs to critically assess and monitor on an ongoing basis. Long term debt sustainability also required consideration of the overall fiscal sustainability of total public debt, including domestic debt, as well as promotion of exports and growth to improve debt carrying capacity of HIPC's.

20. Ministers agreed that the theme of Ensuring Debt Sustainability and Achieving the Millennium Development Goals (MDGs), which had guided all their meetings since Lilongwe, continued to remain appropriate. These two overarching objectives had allowed them to go beyond the concerns about the implementation of the HIPC initiative, and discuss and make recommendations on all relevant issues. Ministers stressed that, in the future, achievement of MDGs should be seen as the prime objective, with debt sustainability taken as an important binding constraint. This approach should allow focus on what is required in terms of financial resources to achieve the MDGs, and how debt sustainability, if seen as a constraint, could be eased.

21. Ministers agreed that as in the past, with outstanding issues on the HIPC Initiative, the implementation challenges of the MDRI, ESF and DSF and need to address the domestic debt issue, the focus on influencing the key IMF and World Bank decision making bodies remained appropriate, whilst seeking wider Commonwealth support from all Commonwealth Finance Ministers for such efforts.

Membership and Participation in Future meetings

22. Ministers noted that currently there were ten Commonwealth HIPC's and if Bangladesh, Sri Lanka or Tonga became potentially eligible and applied for HIPC status, then they would automatically qualify as Commonwealth HIPC's with a right to attend all CHMF's as full members. Beyond this point of technicality, they discussed several possibilities of extension of membership, recognising that issues of ensuring long term debt sustainability, mitigating exogenous shocks, addressing the domestic debt and meeting the MDGs was a concern for all poor countries that relied predominantly on concessional official sources of finance.

23. Ministers welcomed continued participation of representatives of four Commonwealth donors as well as the IMF, World Bank and African Development Bank. The CHMF's had provided an occasion for such participants to be aware at first hand of the concerns and recommendations of Commonwealth HIPC members. Ministers also welcomed the continued civil society participation as this had allowed the civil society not only to reinforce the concerns of governments to donors/creditors but also to critically review their own governments' performance. They also saw benefit in the continued participation by parliamentarians as the latter were kept abreast with key issues that could be critical for parliamentary scrutiny. They agreed with the continued participation by capacity building institutions such as MEFMI and WAIFEM which had served to inform Ministers of the latest capacity building initiatives and resource needs and for Ministers to raise capacity building needs facing their economies.

Timing of Future Meetings

24. Ministers discussed several options with respect to timing of future meetings. The first was to continue the present format of meeting twice: once in a substantive meeting in February-April at a HIPC location and secondly at a brief review meeting in the wings of the Commonwealth Finance Ministers Meeting. The second option was to meet once a year in a more substantive meeting at the time of the Commonwealth Finance Ministers Meeting, which would save the time and financial cost of meeting twice, while allowing sufficient time to discuss relevant issues. But this had to be considered in the situation where Commonwealth HIPC Ministers were already required to spend a long period of time out of their capitals in connection with the Commonwealth and IMF/World Bank related meetings. The third option was to meet once a year in a LIC location at a timing that suits all, that would allow in depth discussion and high level participation; however while the conclusions for such a meeting could be fed into important decision making forums, it would lose connection with the Spring and Autumn IMF/World Bank Meetings.

25. Ministers mandated the new Chair, Hon Ng'andu Magande, to consult on these issues and to include non-Commonwealth HIPCs in these consultations and report to the September 2006 CHMF Meeting in Colombo.

Conclusion and Appreciation

26. Ministers noted the valuable contribution of the Civil Society (which has issued a separate Statement), encouraged them to continue engaging with the Forum and thanked the Commonwealth Foundation for facilitating their participation. Ministers expressed support for the strengthened partnership with the civil society in the quest for debt sustainability in the context of attainment of MDGs.

27. Ministers agreed that their Statement should be forwarded to the African Development Bank, the International Monetary and Finance Committee and the Development Committee as well as all Commonwealth Finance Ministers by the Chairperson of the Meeting. They also agreed that the Chair should continue the efforts to promote the action points from the current and previous meetings.

28. Ministers expressed deep appreciation to the Commonwealth Deputy Secretary-General, Mr Winston Cox, for his invaluable support and contribution to the Forum since its inception. They wished him well in his future endeavours.

29. Ministers expressed their gratitude to the government and people of Zambia for their warm hospitality and for the excellent arrangements for the Meeting.

Livingstone
Zambia

12 April 2006