



# Commonwealth Ministerial Debt Sustainability Forum

The World Bank, 1818H Street NW, Washington, DC  
20433, USA

9 April 2008

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## MINISTERIAL STATEMENT

1. The Commonwealth Ministerial Debt Sustainability Forum (CMDSF) (*hitherto called the Commonwealth HIPC Ministerial Forum (CHMF)*) held its thirteenth meeting on 9th April 2008 at the World Bank headquarters in Washington DC, USA. Finance Ministers or their representatives from Cameroon, Ghana, Guyana, Malawi, Mozambique, Sierra Leone, United Republic of Tanzania and Zambia attended. In addition representatives from Guinea, Kenya, African Development Bank, Crown Agents, IMF, Inter-American Development Bank, Macroeconomic & Financial Management Institute of Eastern and Southern Africa (MEFMI), Organisation Internationale de la Francophonie (OIF), West African Institute for Financial and Economic Management (WAIFEM), the World Bank, Commonwealth Parliamentary Association as well as the civil society attended by special invitation.
2. Ministers applauded the outstanding stewardship provided to the Forum by the outgoing Chairperson, Hon Kwadwo Baah-Wiredu, Minister of Finance and Economic Planning, Ghana and congratulated Hon Ashni Singh, Minister of Finance, Guyana on assuming the Chair.
3. Ministers pointed out that the change in the name of the Forum reflected the new realities and focus for Commonwealth HIPCs. They were pleased that with the Gambia's addition, all Commonwealth HIPCs had reached the HIPC Completion Point. The focus of their meetings had therefore moved beyond the strictly HIPC-related issues and their prime concern now was maintaining debt sustainability and strengthening capacity for prudent debt management whilst promoting growth and achieving the Millennium Development Goals (MDGs).
4. Ministers reviewed progress in implementing the HIPC Initiative, MDRI and the IMF/World Bank's Debt Sustainability Framework. They focused specifically on accessing capital markets by Low Income Countries (LICs), notably the post-MDRI countries; the relevance of the IMF's Policy Support Instrument (PSI); and the challenges and safeguards of managing new opportunities for external financing whilst maintaining debt sustainability. They also considered the status of the ongoing Commonwealth Secretariat programmes on Legal Referral Service (Legal Debt Clinic) and Effective Public Debt Management.

## **Implementation of the HIPC Initiative**

5. Ministers noted the continuing difficulties faced by a number of non-Commonwealth HIPCs in reaching the decision and completion points. They urged a more proactive approach by the international institutions in addressing the challenges facing these economies. They welcomed the setting up of fragile states facilities as part of IDA-15 and AfDF-11 replenishments.

6. Ministers were concerned about the very limited progress made on the issue of non-Paris Club Creditor participation in the HIPC Initiative. They reiterated the call made, since their March 2003 Dar es Salaam meeting, for collective diplomatic initiatives, comprising Bretton Woods Institutions, key donors and HIPCs themselves. They resolved to explore concrete actions to address this problem. They again called for donor assistance to cancel debt owed by HIPCs to other HIPCs.

7. Ministers expressed continuing alarm at the growing incidence of litigation by commercial creditors against HIPCs. While welcoming efforts by a number of international institutions to assist countries facing litigation, they again urged the IMF and World Bank not to regard proactive support for HIPCs in debt litigation as compromising their neutrality. They also repeated their earlier calls for changes in the laws by governments of countries where commercial creditors reside to protect HIPCs from litigation.

## **Implementation of the MDRI and the related IADB Initiative**

8. Ministers noted that all 23 post-completion-point HIPCs have qualified for MDRI and the related IADB initiative. They were pleased that under both IDA-15 and AfDF-11 replenishments donors had made additional pledges to cover the MDRI costs incurred by these institutions over these replenishment cycles. They, however, reiterated the need for donors to give predictable and convincing assurances of reimbursing the cost of implementing the MDRI over the next 4 to 5 decades.

9. Ministers were also concerned that the IADB debt cancellation was financed internally. This will reduce total resource allocation by 25 per cent and make it less concessional for countries eligible for the Fund for Special Operations (FSO). They reiterated the need for immediate negotiations for the replenishment of the FSO. They also urged additional funding for the IMF to support cases which were not included in its original MDRI financing framework, including utilisation of the proceeds from the sale of IMF gold.

10. Ministers continued to be concerned that IDA-15 and AfDF-11, while simplifying the Performance Based Allocation (PBA) formula, had not given consideration to the proposal to give the objective of reaching MDGs equal weight with country performance ratings in the formula for allocating MDRI-induced compensatory finance. They again urged serious consideration of the proposal. They noted that the newly established fragile states facilities will provide a significant

amount of additional resources above those allocated by the PBA formula. In so far as these fragile states have weak MDG indicators, they emphasised the need for these additional resources to help meet these countries' important MDG-related goals.

### **Debt Sustainability Framework (DSF) and Non-Concessional Borrowing**

11. Ministers noted LICs' requirements of significant investments for making progress towards MDGs. They welcomed substantial enhancements of IDA and AfDF concessional windows, but were deeply concerned at the decline in official development assistance in 2007. They urged donors to maintain the momentum to translate their Gleneagles aid targets into definite pledges and commitments in order to reduce the pressure on Low Income Countries (LICs) to raise non-concessional foreign loans.

12. Ministers were pleased that Debt Sustainability Analyses (DSAs) were being carried out annually for the majority of IDA/AfDF-only countries. They, however, urged greater efforts by the international institutions to raise awareness and build capacity in LICs to enable greater country-specific inputs in the preparation of DSAs. They also urged greater transparency and country input in the preparation of country policy and institutional assessments as these have a bearing on DSF thresholds and resource allocation.

13. Ministers, in particular, noted that DSF was an important tool to assess whether non-concessional borrowing can be undertaken without undermining debt sustainability. In this respect, they observed that recent DSAs of both Uganda and Ghana had incorporated a significant amount of non-concessional borrowing for specific infrastructure development and had demonstrated that such borrowing could be undertaken whilst maintaining a low risk of debt distress.

14. Ministers noted that IDA has developed a Non-Concessional Borrowing Policy (NCBP) and a similar policy was currently being developed by the AfDF. They further noted that under the policy IDA may apply disincentives where a judgement is made that a country has been less than transparent in its non-concessional borrowing or where such borrowing is unwarranted. They, however, pointed to the severe limitations of the NCBP in cases where IDA financing was small relative to other sources of finance and stressed the need for IDA to remain engaged with such countries.

15. Ministers were pleased that a number of multilateral development banks had already incorporated or were contemplating incorporating elements of DSF into their own financing terms. They noted that IMF/World Bank had an ongoing dialogue with the OECD Working Group on Export Credits and Guarantees (ECG), as well as emerging market creditors. Ministers urged all these creditors to promote sound and sustainable lending practices; greater information sharing and transparency in the policies of emerging market creditors; and the need for the IMF/World Bank to familiarise these creditors with the technical details of the DSF.

16. Ministers recognised that it was in the borrowing country's own best interest to ensure judicious borrowing that did not undermine debt sustainability. They, however, pointed to the need for greatly expanded capacity to manage new borrowing. They urged a systematic and comprehensive approach to technical assistance and capacity building in debt management and reiterated their support for a global partnership to strengthen debt and macroeconomic management in LICs.

17. Ministers were disappointed at the lack of utilisation of the IMF's Exogenous Shocks Facility given the current global environment of rising oil and food prices facing LICs. They called for the forthcoming review of the facility to promote greater flexibility in its use, inter alia, with expanded access and less onerous conditionality. They also highlighted the need for the architecture of support to address the fiscal impact of absorbing historically high oil and food prices. This was particularly important at this juncture of impending global economic slowdown and its possible impact on other commodity prices and aid and other financial flows to LICs.

### **Accessing International Capital Markets**

18. Ministers welcomed the presentations on the recent experience of Ghana in accessing capital markets, as well as cross country experiences on accessing capital markets. They noted that accessing capital markets after going through HIPC and MDRI debt relief was an important milestone for Ghana, as it represented a practical example of prudent non-concessional borrowing whilst maintaining a low risk of debt distress. Ministers, however, emphasised the need for careful advance preparation in accessing such markets and in ensuring that the size of the borrowing is related to specific productive requirements, pricing is appropriate and the bonds are traded and remain liquid.

### **IMF's Policy Support Instrument (PSI)**

19. Ministers reviewed the role of the IMF's Policy Support Instrument (PSI), introduced in 2005, to address the needs of countries that needed the IMF imprimatur for their policies with a view to facilitating their eventual graduation to the Middle-Income Country Status. They observed that a number of countries including Mozambique, Nigeria, Uganda and United Republic of Tanzania in the Commonwealth had PSI arrangements. They noted that PSIs had not lived up to countries' expectations in relation to structural conditionalities, country ownership, flexibility in determining economic policy with alternative scenarios and facilitating access to private capital markets. Ministers looked forward to the outcome of the scheduled review of the PSI experience by the IMF's Board and expressed the hope that the Fund would design a facility that would assist LICs to graduate to the next stage of development.

### **Challenges and Safeguards for Managing Opportunities for External Financing**

20. Ministers recognised that prudent borrowing and lending practices required concerted action on the part of borrowers, lenders and the international community at large. They emphasised the need for lenders to act responsibly taking into account the future debt repayment capacities of borrowers and also to adhere to lending ethics. In this regard, Ministers welcomed the statement by Eurodad on their proposed Charter

on Responsible Lending, whose aim is to ensure that the terms and conditions are fair, that the loan contracting process is participatory and transparent, that human rights and the environment of recipient nations are respected and that repayment difficulties and disputes are resolved fairly and efficiently. The Charter also urges both lenders and borrowers to recognise that they share responsibility for ensuring long term future debt sustainability. Ministers urged careful debate and consideration of the proposals at the forthcoming High Level Forum on Aid Effectiveness in Accra, Ghana and in the run up to the UN Financing for Development Summit in Doha.

### **Domestic Debt**

21. Ministers recognised that a major issue in relation to LICs/HIPCs was the growing volume of domestic debt and in this respect reiterated recommendations made at their April 2007 Washington DC Meeting. In particular, they called on the IMF not to raise any objections to part utilisation of resources released by HIPC debt relief for reduction of domestic debt as was done in Ghana.

### **Effective Public Debt Management**

22. Ministers noted the presentation on the main issues involved in debt management, looking at the emerging market economies (EMEs), LICs/HIPCs and small states. They emphasised the need, in particular, to enhance LICs debt management capacity through institutional reforms as they moved towards market related borrowing and for greater dissemination of public debt data for enhanced transparency

### **Commonwealth Secretariat's Legal Referral Service**

23. Ministers welcomed the assistance provided by the Commonwealth Legal Referral Service (Legal Debt Clinic) on litigation matters and in conducting training seminars. They noted the proposal that the Clinic now embarks on assistance towards promotion of a robust legal framework regarding fiscal management in accordance with individual country circumstances.

### **Appreciation and Conclusion**

24. Ministers agreed that their statement should be forwarded to the International Monetary and Finance Committee and the Development Committee Meetings on 12-13 April 2008. They also agreed that the Chair should continue the efforts to promote the action points from the current and previous meetings.

25. Ministers noted, now that all Commonwealth HIPCs had achieved completion point, and a number of non-HIPC Commonwealth countries have expressed interest in becoming members of the Forum, the Secretariat should provide a paper on the scope, role and composition of the Forum to their next meeting in St Lucia. This would also serve to give substance to the change in the Forum's name.

26. Ministers welcomed the continued cooperation with the Organisation Internationale de la Francophonie (OIF) and looked forward to future interaction between the Commonwealth and Francophone Ministers.

27. Ministers expressed their gratitude to the Secretariat and its resource persons for the continued support offered to the Forum and to the World Bank for providing the venue and the excellent arrangements for their meeting.

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