



# Commonwealth Finance Ministers Meeting

St Lucia, 6-8 October 2008

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**Provisional Agenda Item 2**

**FMM(08)2 Supplement (Revision2)**

## **ANNOTATED DRAFT AGENDA**

This annotated draft agenda provides some context for the discussions and highlights the key questions which Ministers may wish to concentrate on in their interventions.

### **ITEM 1: ELECTION OF CHAIRPERSON**

It is customary for the host country to chair the Meeting.

### **ITEM 2: ADOPTION OF AGENDA**

2. The Secretary-General's letter of 17 June 2008, proposed the following Draft Agenda:

- Current World Economic Situation and Prospects, including IMF/World Bank issues
- Special Theme: Meeting the Challenge of High Energy and Food Prices
- Small States Issues
- Commonwealth Development Co-operation
- Future Commonwealth Finance Ministers Meetings

### **ITEM 3: CURRENT WORLD ECONOMIC SITUATION AND PROSPECTS, INCLUDING IMF/BANK ISSUES; AND REPORT OF THE COMMONWEALTH MINISTERIAL DEBT SUSTAINABILITY FORUM**

#### **Current World Economic Situation and Prospects - FMM(08)3**

3. The relatively liquid capital markets in 2007 supported record resource flows to developing countries in aggregate. Although investment, debt and equity flows remain concentrated in the larger emerging markets, there was some evidence of more countries accessing markets including some Commonwealth developing countries. Compositional issues apply to the overall rising reserve levels in developing countries, where strengthened balance of payment positions for China and oil exporters conceal a marked deterioration for other developing countries. For overseas development assistance (ODA), progress stalled in 2007. Meeting major donors' commitments on both the aggregate level of ODA and on the shares going to African countries will require a significant acceleration of recent rates of increase.

4. The immediate prospects for the global economy are shaped by the continuing evolution of the financial, food and fuel crises. Risks to global growth come from each of these areas. In the long run, the ongoing impasse in the Doha trade negotiations is a continuing concern and reduces the world's growth potential. Without agreement there are risks to the global trading system from increasing trade regionalism and bilateralism.

5. The Special Theme (Agenda Item 4) provides Ministers with an opportunity to explore the issues associated with managing economies in the face of higher food and fuel prices. **In this session, Ministers may wish to focus on other issues and risks to global growth, for example:**

- The effects of the financial crisis on individual countries and the immediate and long-term impact, and effectiveness and nature of the global policy response.
- The international policy measures needed to support global economic stability and global growth in the long term, particularly in tackling global inflationary pressures.
- The steps needed in both the short and long term to support a rules-based trading system and the role of Finance Ministers in that objective.
- The prospects for more and better aid to support delivery of the MDGs.

#### **Review of IMF/World Bank Issues - FMM(08)4**

6. The context for discussion of Bank and Fund issues is set by the decision of Commonwealth Heads of Government, at their meeting in Kampala, to pursue collectively a reform process of international institutions. A small group of Heads met in June to take this initiative forward. At that meeting, this group agreed the Marlborough House Statement on Reform of International Institutions<sup>1</sup> that set out a number of Commonwealth principles - legitimacy, fair representation, responsiveness, flexibility, transparency and accountability, and effectiveness – which should guide any institutional reform process. They also identified three specific areas where the Commonwealth could add value to the reform process; one of these was the reform of the Bretton Woods Institutions.

7. The Marlborough House Statement calls for redefinition of purposes and governance of the Bretton Woods Institutions. It also highlighted the need for a discussion within the Commonwealth and amongst the wider international community to create the necessary consensus for change and to identify the direction that change should take. The Statement also looks for an international conference to achieve the objectives of reform. This issue will be discussed at the special meeting of Heads in the margins of the UN General Assembly in New York on 24 September. There it will be proposed that the Commonwealth Secretariat should undertake a process of consultation amongst the whole membership to identify what the objective of reform should be and how it can be taken forward in an inclusive way. Finance Ministers will wish to discuss what other steps to develop this initiative should be taken.

8. In addition to the issue of fundamental reform, the institutions face immediate issues in meeting the needs of the membership. Within the Fund, the IEO report on Corporate Governance and the appointment of the Managing Directors Committee on Governance

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<sup>1</sup> *Marlborough House Statement on Reform of International Institutions* available at [http://www.thecommonwealth.org/document/180216/marlborough\\_house\\_statement.htm](http://www.thecommonwealth.org/document/180216/marlborough_house_statement.htm)

chaired by the South African Finance Minister have opened the next phase in the debate on the Fund's internal and external accountability. Governance issues are also central to the agenda of the Development Committee at the Annual Meetings in preparation for concrete decisions at the Spring Meetings in 2008. There is an opportunity to discuss how these two processes can reflect the principles set out in the Marlborough House Statement.

9. The changing challenges in the global economy mean that the institutions have to make constant efforts to ensure their relevance. In the Fund, there are particular issues about the continuing reform of its surveillance function, notably its role in financial sector issues and the Fund's financial instruments. The Bank faces challenges caused by the increasing number of actors in the global development system and the changing needs of its borrowing members. In addition, concerns about operational issues – notably the speed of project design and disbursement – remain relevant.

10. In discussion Ministers may wish to consider:

- What are the best strategies to progress the Commonwealth process for reform of the Bretton Woods Institutions?
- What common positions should Commonwealth Finance Ministers adopt to enhance the governance of both institutions?
- What measures should be taken to strengthen the Fund's ability to play an effective role in supporting global economic and financial stability in the light of lessons learned from the past management of financial crises?
- What role should the IMF's finance and financial instruments play in support of its membership?
- What considerations should guide the role of the World Bank in the international system of environmental finance?
- How can the Bank best serve the interests of the entire membership, including the smallest members and make best use of its financial resources?
- What changes might be made to the international system of disaster management in the wake of experience with high food prices?

#### **Debt Relief and Debt Sustainability - FMM(08)5**

11. The meeting will receive an oral report from the Chair of the Commonwealth Ministerial Debt Sustainability Forum, the Minister of Finance of Guyana, the Hon Ashni Singh. The Forum will be discussing the follow up action to its previous meeting at the Spring Meetings. In addition, members of the debt sustainability forum will be discussing the focus and membership of the group recognising that all members have now completed the HIPC process and the issues that they confront are of interest to a wider group of the Commonwealth membership. The background paper - **Issues for Consideration: The Future of the Commonwealth Debt Sustainability Forum - FMM(08)5a**, proposes that the forum should remain focussed on the twin issues of securing and maintaining debt sustainability and the finance needed to achieve the MDGs. The forum members will discuss a number of options for changing the composition of the membership.

12. Beyond these important organisational issues, the forum will discuss remaining issues in the implementation of the HIPC and Multilateral Debt Relief initiatives, including the participation of non Paris Club creditors. They will also consider the ongoing challenges of debt management and experiences on access to finance.

13. In the plenary Ministers may wish to comment on the conclusions of the forum and on other debt related issues. Specifically, they might discuss what role the Commonwealth should play in encouraging the international community to address the debt of Small States.

**ITEM 4: SPECIAL THEME: THE IMPLICATIONS OF HIGH FOOD AND ENERGY PRICES FOR ECONOMIC MANAGEMENT - FMM(08)6, FMM(08)7 AND FMM(08)8**

14. High and sustained food and fuel prices have been a dominant feature of the global economy over the past year. The links between the two price trends have strengthened in recent years as higher fuel prices have tended to raise agricultural input prices and, at the margin, the use of crops for food or fuel production have become direct substitutes. The economic, social and humanitarian effect of these twin rising prices has been particularly felt in Commonwealth countries. The cost of meeting the hunger element of MDG1 is estimated to have risen by \$1.7bn annually for African Commonwealth countries alone. Estimates put the global increase in poverty at between 75 and 100 million, with up to 30 million further people in poverty in Africa alone. More widely, there is an important knock-on effect on the human related MDGs. This is particularly felt through the impact on women who tend to be the primary agricultural producers.

15. The implications for Finance Ministers are felt through a number of channels. All countries face a possible inflationary impact from rising prices and through that on monetary policy. There are also common potential fiscal impacts as countries seek to ameliorate the effects of rising prices on vulnerable parts of the population. With the expectation that prices are likely to be persistently high into the medium term, managing the sustainability of these measures is an important challenge. Net importing countries face balance of payments pressures at a time when reserve levels for these countries have been eroded by previous fuel price spikes. Net exporting countries face the policy challenge of managing high levels of foreign exchange inflows. Looking into the medium term, Finance Ministers will have a key role in setting the policy framework within which these issues are tackled, particularly the needed supply response in the agricultural sector.

16. These effects are felt in all countries across the globe. A World Bank paper will consider all these issues, their impact on Commonwealth countries and the appropriate policy responses. The paper should be distributed in the last week of September. **Mr Carlos Braga, Director, Economic Policy and Debt Department, World Bank**, will present the analysis to Ministers.

17. Finance Ministers established a Civil Society input as a key part of the discussion in 2002. The **Civil Society Statement - FMM(08)7**, reflects pan-Commonwealth consultation amongst civil society which took place in St Lucia from 8-10 June. The statement sets out a wide ranging agenda of measures for addressing the causes and consequences of higher food and fuel prices – especially the former. As an emergency response, it stresses the need for alleviation of the effect of food prices on the poorest, including strengthening social safety nets and assistance from the international community. In tackling the challenges of food production, it places resolving the crisis firmly in the context of achieving all the MDGs and in making detailed recommendations, links the MDGs and food security comprehensively. The statement makes recommendations on agricultural policy and the related issues of access to land, energy, capital and water. In particular, the importance of addressing gender

inequality in landholding and agriculture is highlighted as central to a sustainable solution to the crisis. In addressing this, the statement looks for support from the developed Commonwealth for agricultural production in developing countries and trade and concludes with a call for an inclusive and transparent process of policy development within and amongst countries to meet these challenges. Representatives of civil society will present their conclusions to Ministers.

18. The Commonwealth Business Council will also present a paper to Ministers. The paper, **Implications of High Food and Energy Prices for Economic Management: Private Sector Perspectives - FMM(08)8**, sets out the views of business. The paper makes recommendations in three broad areas for addressing higher prices. Firstly, in international and public policy there is felt to be a need to reduce biofuel subsidies, liberalise agricultural markets through the Doha Round and to ensure a consistent framework for carbon markets. Secondly, to promote the supply response in the agricultural sector, the paper recommends improved cooperation between the public and private sectors, greater use of markets to mitigate risk and public support for insurance for small scale farmers. Finally, it looks for greater investment in efficient alternative energy sources to diversify supply.

19. **Ministers will wish to react to each of the papers and presentations. A particular focus should be on:**

- Exchanging experience of immediate effects of higher fuel and food prices.
- The optimal national policy measures for tackling the long term implications of the higher prices.
- The international policies needed to support an effective response to higher prices and to equip the international community better to tackle future shocks of this nature.

**ITEM 5: REPORT FROM CHAIR OF SENIOR FINANCE OFFICIALS MEETING ON THEIR TECHNICAL THEME DISCUSSION: *ECONOMIC IMPLICATIONS OF CLIMATE CHANGE FOR AUSTRALIA* – FMM(08)(SO)2**

20. In October 2007, Finance Ministers called for a Commonwealth initiative on the economics of climate change to help member states to develop and promote common positions and take practical action on the basis of a clear understanding of the implications of climate change for their economies. With a view to bringing greater continuity to CFMM sessions, this year's Senior Finance Officials meeting continues the theme of climate change with an exchange of experiences amongst senior officials on conducting economic assessments of the implications of climate change and climate change measures.

21. This will be an opportunity for senior officials to learn about approaches to studying the economic implications of climate change within a national or regional context. Member states are encouraged to share experiences of other studies of this kind (often referred to as 'mini-Stern' reports) conducted at the national and regional levels, with a view to exploring whether greater exchange of expertise and knowledge in this field would assist member states.

22. The Australian experience is instructive as one of the hottest and driest countries with a significant amount of economic activity directly exposed to the effects of climate change. Based on the preliminary findings of an independent study, the paper finds that over the period to the end of this century, the benefits of moderating carbon emissions and through

that slowing the rise in temperature, substantially outweighs the costs. This is despite the relative carbon intensity of the Australian economy, which tends to raise the short term mitigation costs. It also does not take into account even longer term benefits or non economic effects, which can be substantial, if difficult to price.

23. Ministers will receive a report from the Chair of that meeting. Ministers may wish to comment on the discussions and experience in their own countries.

## **ITEM 6: SMALL STATES ISSUES**

### **Trade, Climate Change and Sustainable Development: Key Issues for Small Developing Countries - FMM(08)9**

24. In October 2007, Finance Ministers called for a Commonwealth initiative on the economics of climate change to help member states to develop and promote common positions and take practical action on the basis of a clear understanding of the implications of climate change for their economies. This agenda item examines the special concerns of Least Developed Countries (LDCs), Small and Vulnerable Economies (SVEs) and Small Island Developing States (SIDS) with respect to trade and climate change.

25. **Mr Ricardo Meléndez-Ortiz, Chief Executive of the International Centre for Trade and Sustainable Development (ICTSD)** in Geneva, will present the objectives and key findings of a recent study that was initiated by the Commonwealth Secretariat and undertaken jointly by the Secretariat with the ICTSD. These are summarised in **Trade, Climate Change and Sustainable Development: Key Issues for Developing Countries - FMM(08)9**. While the trade and climate change concerns of developed and larger developing countries have been examined in some detail, the concerns of small developing countries are much less understood and recognised. This will be an opportunity for Ministers to consider the strategic implications of climate change on their economies, and to explore ways in which this analysis can help to secure greater recognition and support for adaptation measures within small developing countries.

27. **Ministers may wish to:**

- Highlight any assessments carried out at the national level concerning the impact of climate change in key trade sectors (goods and services).
- Identify the key constraints to deepening analysis and action on climate change adaptation within key trade sectors.
- Outline any policies in place to build greater economic resilience in the face of climate change.
- Identify the concrete steps the Commonwealth and other international institutions take to support further work in this area.

### **Small States: The International Trade Landscape - FMM(08)10**

28. The paper informs Ministers of the recent developments in the international trading system that impact on Small States and outlines the work of the Secretariat in this area. The Secretariat's work in trade is part of the overall programme of assistance to small states to enable them to cope with their inherent vulnerability and meet the challenges and opportunities of globalisation. The Secretariat's programmes and projects assist small states

to tackle vulnerability and build economic resilience; strengthen capacity and empower human resources; integrate into the global economy and increase competitiveness; and benefit from international trade, and international and regional cooperation.

29. The paper, **Small States: The International Trade Landscape - FMM(08)10**, starts by outlining the Commonwealth's Vision for Trade as adopted by the 2007 CHOGM and an analysis of Commonwealth Trade Flows. The paper then examines multilateral trade, looking specifically at the Doha Trade talks, a review of the WTO and recent Commonwealth activities such as the analysis of the rise of Brazil, India, China and South Africa, aid for trade and the global partnership for development. The paper then looks at regional trade integration including ACP-EU negotiations and other international trade issues of concern to Commonwealth Small States. This will include issues and concerns on initialled EPAs, impact on ACP member states of the EC's offer of duty free and quota free market access for sugar, and bilateralism and development.

30. In their consideration of the issues presented in the paper, **Ministers may wish to consider, inter alia, the following:**

- The measures needed for the Doha Round to deliver on development and whether a fair and balanced outcome should entail: genuine Duty Free and Quota Free (DFQF) market access for LDCs to all developed country markets; meaningful and effective special and differential treatment; preservation of the positive 'early harvests' made in all the areas of the talks and priority to finding fair solutions to issues of particular interest, such as bananas and others, to small states.
- The need for appropriate measures in favour of preference-dependent economies which mitigates the impact of the erosion of long-standing trade preferences;
- Reforms to the European Partnership Agreements including:
  - The need for the substance of the EPAs to promote development of ACP States;
  - The need for the development dimension of EPAs to reach beyond financial assistance and aid for trade support to include countries underlying economic objectives;
  - The need for EU Member States to provide adequate resources on a sustainable and predictable basis to address challenges faced by ACPs in implementing EPA commitments and issues of preference erosion; and
  - The need for co-ordination among ACP regions particularly as regards cross-cutting issues such as rules of origin; the MFN clause; safeguards; dispute settlement and new generation issues;
- The role of the Commonwealth in international trade issues in order to provide maximum support to its small states members in their management of these global challenges

## **ITEM 7: COMMONWEALTH DEVELOPMENT CO-OPERATION**

### **Promoting Investment in the Commonwealth: Looking Forward - FMM(08)11**

31. Recent years have seen almost unprecedented growth in global foreign direct investment. However, the distribution of investment resources remains skewed, even between

regions with similar economic performance. The Commonwealth Secretariat seeks to assist member states to improve their investment climate and establish cost effective mechanisms to attract long term investment. The aim is to identify and pilot innovative approaches in these areas with a view to spreading good practice across the Commonwealth and to provide a demonstration effect for other investors. In response to successive mandates from Finance Ministers meetings, the Secretariat has focused on two key initiatives – the Commonwealth Private Investment Initiative (CPII) and Lowering the Threshold (LTT).

32. CPII aims to mobilise capital from a variety of sources, including private investors, for investment in developing member countries. CPII has raised in excess of \$800 million for investment in member countries, including \$260 million in the last twelve months. It has fulfilled the twin objectives of: (i) demonstrating that pre-emerging markets and small economies can offer attractive returns; and (ii) acting as a catalyst for the development of new financial products.

33. The Lowering the Threshold (LTT) initiative grew out of a 2001 Secretariat publication of the same name, which argued for the use of official development assistance to address the higher risk premium attached to investing in small vulnerable economies due to the higher cost structures associated with ‘endowed handicaps’. On the basis of consultation, the Secretariat has developed practical measures to address the high transaction costs and risks associated with SME lending, with a particular emphasis on information asymmetries.

34. Commonwealth Heads of Government, in their communiqué issued in Kampala, called on the Secretariat to intensify its efforts in promoting access to capital. The Heads of Government recognised the importance of improving the business and overall regulatory environment in reducing investor costs and promoting investment, and called for a greater focus on developing domestic financial markets and providing opportunities for domestic investors.

35. The Secretariat paper, **Promoting Investment in the Commonwealth: Looking Forward - FMM(08)11**, sets out how the Secretariat’s activities will be taken forward to maintain the success of the initiatives recognising the mandates and changing economic environment. Ministers may wish to comment on the way forward.

### **Review of the Future of CFMMs**

36. At their last meeting, Ministers asked the Secretariat to consider options for the format, content, frequency, location and timing of future meetings to maximise the relevance of the meeting to the whole membership and ensure high levels of attendance. The paper, **Commonwealth Finance Ministers Meeting: Agenda and Way Forward - FMM(08)12**, sets out options for Ministers to consider. The paper sets out the purpose of Commonwealth Finance Ministers Meeting and the current structure. After considering the concerns that have been expressed by Ministers, it considers options concerning each of the elements of the meeting.

37. The paper sets out a package of recommendations for Ministers consideration:

- CFMM should take place annually, immediately prior to the Annual Meetings of the World Bank and IMF.

- The choice of location of the meetings should be based either upon the status quo or a model in which the meetings are held successively in Washington, a Western Hemisphere Commonwealth nation and a conveniently located Commonwealth country in the third year of the annual cycle.
- A Ministerial Meeting of one day when held in Washington and a day and half when held in a Commonwealth country;
- The Meeting should discuss any issue of special relevance to Ministers which should be chosen in consultation with members.
- Ministerial discussion should be on the basis of fewer, shorter, more focussed papers.
- The retention of a half day meeting of senior officials.
- The schedule and structure should be subject to consistent and regular review. There should be an assessment of experiences of the next three CFMMs in 2012.

### **Commonwealth Public Financial Management Self- Assessment Toolkit**

38. The Secretariat will make a brief presentation as a follow up to ministers' commitment to biennially employ the Commonwealth Public Financial Management Self Assessment Toolkit (CPFM-SAT), which aims to enable member countries take stock of country financial management reforms. The Commonwealth Secretariat has developed a public finance website to facilitate cost-effective and time-saving web-based country surveys.

39. The configuration of the web-survey would be shared with ministers or senior finance officials, to familiarise themselves with the tool ahead of the first exercise scheduled for February 2009.

#### **ITEM 8: ADOPTION OF COMMUNIQUÉ**

40. The focus of this Agenda item will be the consideration and adoption of the Draft Communiqué prepared by the Committee of the Whole.

#### **ITEM 9: VENUE OF NEXT YEAR'S MEETING AND ANY OTHER BUSINESS**

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