



# Commonwealth Finance Ministers Meeting

St Lucia, 6-8 October 2008

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## Communiqué

1. Commonwealth Finance Ministers met in Gros Islet, St Lucia on 7 and 8 October 2008. The meeting was chaired by the Hon Stephenson King, Prime Minister and Minister of Finance, St Lucia.
2. Ministers reviewed the world economic situation, national and global responses to the difficult circumstances most countries are facing following the surge in food and energy prices, as well as deepening financial turmoil in advanced economies. They discussed a range of issues that are on the agenda of the annual meetings of the World Bank and IMF in Washington and also ways to advance the needed reform of the two institutions. They considered policy issues relating to the economic challenges of climate change, aid and aid effectiveness and ways to take forward the Accra Agenda for Action, debt sustainability and debt relief, supporting development in small states, and promoting investment in Commonwealth developing countries. They agreed to take forward their conclusions to the IMF/World Bank meetings in Washington.
3. Ministers noted the review of the commitments and undertakings set out in the Monterrey Consensus which will take place in Doha in November 2008 and encouraged member countries to attend.

### **World Economic Situation**

4. Ministers met during a time of unprecedented turbulence on global financial markets and consequently of uncertainty about the global economy. They recognised the ongoing fragility of confidence in global markets and stressed the necessity of continued coordinated action at global and regional level to limit the slowdown in global growth. Ministers noted the failure of IMF surveillance in the current financial crisis. They recognised the importance of strengthened regulation globally as well as more transparent disclosure by institutions, improved risk management and better multilateral surveillance in improving the functioning of markets in the longer term. They stressed the importance of involving all countries in the design of this global regulatory response.
5. Over the course of the year it has become increasingly clear that the world is facing a period of slowing growth and continuing financial turmoil. The impact on developing countries, initially limited, has become more severe as borrowing spreads

have widened and credit availability reduced. The expectation is that in the short and medium term the impact on these countries will become increasingly severe and problematic. Inflationary pressures remain.

6. At the same time global macroeconomic imbalances which have been in place for some years have yet to unwind in an orderly fashion. Ministers noted the benefits a balanced Doha Round stands to deliver to developing countries including the World Trade Organisation's single undertaking approach and consensus decision making which enable small economies to advance their trade interests with larger economies more effectively than through bilateral negotiations. Reaching such agreement at this time would constitute a major opportunity for positive international action to support growth and poverty reduction.

Against this background Ministers:

- Noted the actions of advanced countries to address the financial crisis and stabilise markets through policy measures to protect savers, boost confidence and reduce the risks of recession.
- Called for further coordinated policy and regulatory action to resolve the crisis.
- Called for enhanced international cooperation both to secure an early return to stability and to strengthen financial regulation and surveillance for the future.
- Called on the Bretton Woods Institutions to commission studies to assess the pass through effects of continuing financial turmoil in developed countries on developing countries and to design measures to mitigate the effects.
- Called for appropriate fiscal and monetary policy responses in advanced countries to sustain growth and help resolve global imbalances while containing inflation and ensuring macro-economic stability
- Urged key stakeholders to muster the necessary political will to achieve an urgent, fair, equitable and development oriented conclusion to the Doha Round and to resist the emerging tendency to resort to protectionism while recognising the need for special and differential treatment.

### **Policy Implications of High Food and Energy Prices**

7. Ministers discussed the short to long term risks to developing countries from high food, food input and energy prices, taking note of a useful background report on the issues and appropriate policy actions provided by the World Bank. They also welcomed contributions to their discussion from Civil Society and the Commonwealth Business Council and the recommendations on the role to be played by both private sector and civil society in meeting the challenges.

8. Though some developing countries are benefiting from high commodity prices, adverse inflationary and internal redistributive effects are large everywhere. Higher food prices are setting back progress towards meeting both the poverty MDG, and – through the impact on the most vulnerable - the human development MDGs. Higher food and energy prices are also causing severe balance of payments problems, especially for those

energy importing countries, mainly in Africa, with the lowest capacity to import. Most poor countries are adversely affected. Small states are especially vulnerable as well as landlocked countries with higher than average transportation costs. Many of the poor countries that are most exposed to international food and fuel price shocks also have little fiscal capacity to cope with these shocks, and limited means to respond to inflationary pressures.

9. Ministers recognised that individual countries face difficult policy challenges, including dealing with the redistributive effects of the commodity price shocks, controlling inflation, financing the shock (or investing its proceeds), and maintaining the soundness of the financial system and the sustainability of growth. They also recognised that while the policy challenges need to be addressed at the national level, the task will be made easier if the international community provides coordinated support. Ministers:

- Called on the international community to intensify its support for affected countries in handling the immediate impact of the crisis and to accelerate both short and longer term investments in increasing agricultural production and productivity and new sources of energy supply. In the poorest countries, these efforts must be additional to existing financial commitments to meet the MDGs.
- Asked the World Bank and IMF to further strengthen their efforts to provide support and advice at both the country and global levels.

### **Reform of the IMF and World Bank**

10. In their discussion of the IMF and World Bank, Ministers welcomed the Commonwealth Heads of Government initiative on the Reform of International Institutions and expressed broad support for the outcomes of the June Marlborough House Heads meeting and the commitment to pursue fundamental reform of the Bretton Woods Institutions. Ministers:

- Reaffirmed the importance of multilateralism in meeting the challenges of an increasingly integrated global economy, stressing the valuable role of effective and well designed institutions in supporting multilateral solutions.
- Noted that institutions need continual reform to ensure that they are relevant to contemporary needs.
- Endorsed the principles of legitimacy, fair representation, responsiveness, flexibility, transparency and accountability and effectiveness, as set out in the Marlborough House statement, to guide reform of international institutions.
- Emphasised that Commonwealth Finance Ministers should play an important role in any reform process in the Bretton Woods institutions.
- Agreed to form a representative Ministerial group to conduct and support a consultative process across the membership to create a Commonwealth consensus on the objectives of the reform of the purpose, instruments and governance of the institutions and the process for achieving this, paying particular attention to the special needs of LDCs and small states. This effort will complement the existing reform processes in the two institutions.

11. Ministers stressed the need also to continue to support efforts to address the more immediate issues of relevance and legitimacy in the Bretton Woods institutions, giving priority to:

- Continued progress in IMF governance reform. In this context, Ministers welcomed proposals in the recent report of the IMF Independent Evaluation Office and the setting up of the Managing Director's eminent persons group to advise on governance reform and emphasised that reform should respect Commonwealth principles, especially those of accountability, transparency and responsiveness to the membership.
- Governance reform at the World Bank, which should recognise the different functions and purpose of the Bank from the Fund and enhance the voice of smallest and poorest countries. Ministers expressed strong support for the creation of a third Chair for Africa at the Executive Board of the World Bank.
- Introduction of an open and transparent procedure to select the President of the World Bank and the Managing Director of the IMF on a meritocratic basis regardless of nationality.
- Action to reinforce the role of the IMF as an effective forum of international cooperation, strengthen its role in understanding and resolving financial crises and review its instruments to re-establish their coherence and relevance.
- Encouraging improved surveillance of all countries and further collaboration between the IFIs to reinforce early warning capabilities to identify risks to international macro-economic and financial stability.
- Reaffirming the centrality of the World Bank's poverty mandate and its relevance in all its developing member countries, stressing the need for the Bank to continue to improve its services for small states. In this context, Ministers welcomed current efforts better to exploit synergies between different parts of the World Bank group, to accelerate disbursements, to simplify procedures and to use the capital of the Bank efficiently to maximise the Bank's impact on development outcomes.

### **Debt Sustainability**

12. Ministers reviewed progress in achieving debt reduction and debt sustainability in developing countries. They welcomed the report from the Commonwealth Ministerial Debt Sustainability Forum (CMDSF). They also welcomed the decision of the Forum to extend its membership to IDA only Commonwealth members with unsustainable debt and to invite other Commonwealth developing countries with unsustainable debt to participate in future meetings should they express a desire to do so.

13. They supported the Forum's programme of work for its next meeting set out in the CMDSF statement. In addition, Ministers:

- Called for urgent conclusion of negotiations on replenishment of the IADB Fund for Special Operations

- Called for efforts to strengthen creditor participation in debt relief, including diplomatic initiatives to achieve full participation of non-Paris Club bilateral creditors; and donor assistance to relieve HIPC to HIPC debt.
- Recognised the importance of Commonwealth creditors leading by example by providing full HIPC relief and not selling claims onto other creditors.
- Expressed alarm at the growing incidence of litigation by commercial creditors. They appreciated the assistance provided by Commonwealth Legal Referral Service in this context and urged the IFIs to provide further assistance to countries facing litigation and for consideration of changes in laws of host countries to protect HIPCs from litigation.
- Recognised that both borrowing countries and creditors should work to achieve debt sustainability in the long term. They called for increased transparency on lending behaviour from all creditors.

14. They also noted the CMDSF Ministers call for concessional resources to be allocated on the basis of MDG related needs, as well as performance, in particular by adjusting the performance based allocation formulas of IDA and the Regional development Banks.

15. Ministers also noted growing debt burdens in a number of small and vulnerable countries that are not HIPC eligible. They called for attention to be given to relieving the debt burden of poor countries excluded from the MDRI and HIPC processes that have continued to service their debts and of other developing countries with unsustainable debts. Ministers agreed that the CMDSF could and should play a continuing important role and endorsed the proposals for the future timing and format of meetings.

### **Aid and Aid Effectiveness**

16. Ministers re-emphasised the importance of meeting international commitments to increase the quantity and quality of international aid to support policy reform in developing countries and accelerate progress towards meeting the MDGs. They stressed the importance of meeting these commitments even in the context of the global economic challenges. They welcomed the decisions of those donor countries which have established timetables for reaching the 0.7% of GNI for ODA flows and urged other donors to do likewise. In particular, they called on all countries to meet their commitments to double development assistance by 2010 and to double aid to Sub-Saharan Africa. Such assistance is more important than ever as countries face the adverse macroeconomic and distributional effects of higher food and energy prices and the contagion effects of the financial crisis.

17. They took note of the Secretariat's annual report of progress in implementing the Paris Declaration on Aid Effectiveness and the slow progress made in most countries by donors in implementation. They strongly welcomed the recent agreements reached at the Accra High Level Forum – the Accra Agenda for Action - for accelerating progress in future.

18. In this context, Ministers noted the key importance of increasing developing countries' capacity to manage and lead the process of donor support. They expressed appreciation for the support the Commonwealth Secretariat is able to give in this respect, and called for further action by the Secretariat to promote sharing of good practice, exchange of experiences and peer learning. They also asked the Secretariat to report again to next year's CFMM of progress in implementing the Paris Declaration and Accra Agenda for Action.

19. Ministers welcomed the International Aid Transparency Initiative and urged all donor countries to support it and agree to provide and publish full and detailed information on aid in a form that makes information about aid accessible to all relevant stakeholders. They urged donors to work together with partner countries and civil society organisations to agree common definitions and a format to facilitate sharing of information on aid by the end of 2009.

### **Economic Impact of Climate Change**

20. Recognising the potentially severe economic impacts of climate change in most countries, Ministers reaffirmed the critical role for finance and planning ministries in preparing their economies for the challenges that climate change is posing, and in engaging at the national and international level on the issue of financing for adaptation. Ministers took note of the report of their Senior Officials' discussion of these issues based on a very instructive presentation on the Australian experience. They welcomed the emphasis placed in the discussion on a greater mobilisation, scaling-up and additionality of funding to support adaptation to climate change by small and developing countries; and on the important role that technology support and transfer had to play. They further noted that small states emphasised the importance to them of access to technology to support their own mitigation efforts and sustainable development. Ministers supported the concerns expressed by small states in determining appropriate criteria that do not disadvantage such countries with respect to accessing grants or concessionary finance for climate change adaptation.

21. They urged explicit recognition of the economic value of, and the establishment of economic incentives for, avoided deforestation in any post Kyoto agreement and specifically later this year at the Conference of the Parties to the United Nations Framework Convention on Climate Change.

22. Ministers acknowledged the work of the Iwokrama International Centre and called for international support to strengthen the Centre's financial position to carry out its programme for the fulfillment of its objectives, and to ensure it continues to be a model for sustainable forest management involving local communities.

23. Ministers recognised the value of national and regional-level assessment of the costs and benefits of taking action on climate change. They asked the Commonwealth Secretariat to continue its work under the Lake Victoria Commonwealth Climate Change Action Plan on these issues, and in particular to:

- provide further assistance to member countries in identifying the economic costs and consequences of climate change; and to
- provide assistance in strengthening the negotiating capacity of small and low income member states so they can engage effectively in process agreed through the Bali Road Map.

24. Ministers welcomed and agreed to support the proposed new strategic framework for development and climate change of the World Bank Group.

### **Small States**

25. Ministers reviewed the characteristics and challenges facing small states - remoteness and insularity, susceptibility to natural disasters, limited institutional capacity, limited diversification, a high degree of openness, the erosion of trade preferences for traditional exports, a rapid rise in the debt burden, youth unemployment, security and crime and the HIV/AIDS pandemic – noting the adverse impact on their growth rates. In this context, they welcomed the Secretariat’s continuing work to help small states cope with their inherent vulnerability and meet the challenges and opportunities of globalisation, 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.

26. Ministers also noted the importance of the policies, projects and programmes of international institutions to the development of small states and called on the Commonwealth Secretariat and other partner organisations (the World Bank, IMF, WTO, UNCTAD and Regional Development Banks) to continue to implement the recommendations of the 2000 Commonwealth Secretariat/World Bank Joint Task Force Report and the 2006 Review. They asked the institutions to report progress at the annual small states forum held at the time of the IMF/World Bank annual meetings, and asked the Secretariat to consider options for additional mechanisms to track progress.

### **Commonwealth Development Cooperation**

#### Commonwealth Fund for Technical Cooperation (CFTC)

27. Finance Ministers recognised the value of the CFTC programme in supporting capacity development in a number of important areas including debt management and public administration. They recalled that, at their meeting in Barbados in September 2005, they had called on all member Governments to increase their contributions to the CFTC by six per cent per annum in real terms for the next five years. Ministers were pleased that more than half of the member countries had responded to this call and urged members which had not done so to date to respond to this collective initiative.

## Investment

28. Ministers noted that in spite of the high levels of growth in foreign direct investment globally in recent years, many member countries continue to face challenges in accessing capital and attracting investment. In this context they welcomed the Secretariat's efforts to help member countries improve their investment climate and establish cost effective mechanisms to attract long term investment.

29. Whilst recognising the contribution of the Commonwealth Private Investment Initiative (CPII) and Lowering the Threshold (LTT), Ministers stressed the importance of improving the business and overall regulatory environment and an increased focus on developing domestic financial markets. They noted that the first closing of the Aureos Africa Fund, supported by the Commonwealth Secretariat, had raised over \$250 million. They agreed to explore whether domestic institutions in Africa can be encouraged to invest in the fund to promote the increased prosperity of the region in the pursuit of the final target for the Fund of \$450 million.

30. They endorsed the proposed work programme for the Secretariat in this area, including:

- A developmental impact review of the second phase of the Commonwealth Private Investment Initiative;
- Support for the development and deepening of domestic financial markets, with a particular emphasis on long term local currency funding instruments for SMEs,
- Increased efforts to identify ways of reducing the costs and risks associated with lending to SMEs, and
- Increased sharing of experiences and best practice between Commonwealth countries.

## **Venue for 2009 CFMM**

31. Ministers accepted the generous offer of the Government of Cyprus to host their next Meeting in 2009.