



## Joint Ministerial Forum on Debt Sustainability



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

23 April 2009

1. Ministers from Commonwealth and Organisation Internationale de la Francophonie (OIF) low income and debt vulnerable countries met on 23<sup>rd</sup> April in Washington D.C. Ministers or their representative from Benin, Burkina Faso, Cameroon, Central African Republic, Democratic Republic of Congo, The Gambia, Ghana, Guyana, Lesotho, Malawi, Mozambique, Niger, Nigeria, Senegal, Sierra Leone, Tanzania, Togo, Uganda and Zambia were present. Representatives from Ethiopia and Nicaragua also attended by special invitation. Ministers took stock of progress in implementing the HIPC and MDRI initiatives in the light of the ongoing global economic and financial crisis.
2. They noted the serious implications of the crisis for low income and debt vulnerable countries. The sharp contraction in world output and trade is increasing the financing gap such countries face while deteriorating financing conditions make access to external finance even more difficult. Without sharply increased concessional assistance and action to protect critical expenditures including on social safety nets, human development and key infrastructure projects, progress in growth, poverty reduction and attainment of the Millennium Development Goals (MDGs) will be seriously set back. In this context they welcomed commitments made by G20 nations at their London meeting, and the prompt action by IFIs to step up concessional and other financial support for developing countries. They stressed the need for rapid fulfilment of these commitments but noted that these commitments fall short of the needs of low income countries. They urged donors to provide further resources to support growth in their countries to reach the MDGs.
3. Ministers strongly welcomed a new proposal made after the G20 meeting to augment the resources provided to developing countries in the crisis through the provision of further debt relief for the duration of the crisis financed through the sale of IMF gold reserves.
4. They also discussed new instruments for protection against exogenous shocks; ways to diversify sources of concessional and non-concessional finance; good practice in fiscal sustainability; and the possibility of a “debt for climate” adaptation initiative.

## **Progress in implementing HIPC and MDRI**

5. Ministers reviewed progress in implementing the HIPC and MDRI initiatives, noting challenges that remain if countries are to benefit fully from these initiatives, including increasing participation by all creditors in the initiatives, tackling the problem of litigation by vulture funds, maintaining debt sustainability after completion points, tackling debt vulnerability in some countries not eligible under these initiatives, and making countries less vulnerable to future shocks and changes in financing conditions.

6. In discussions with representatives of the International Financial Institutions and the Multilateral Development Banks, Ministers:

- Noted the changes to the IMF's approach to structural conditions and urged further progress in reducing conditionality and welcomed the review of the IMF's facilities and instruments for low income countries;
- Welcomed the commitment of G20 countries to a review of the flexibility of the Debt Sustainability Framework, and look forward to a report on this by the Bank and Fund at their 2009 Annual meetings and emphasised the importance of ensuring that the views of borrowing members are fully integrated into any revised policy.
- Welcomed the establishment of the legal facility in the African Development Bank;
- Stressed the importance of a rapid replenishment of the Fund for Special Operations at the Inter American Development Bank.

## **Protection against shocks**

7. Ministers recognised the damaging impact of exogenous economic shocks on growth and poverty reduction. They noted that the adverse long term impact of the current crisis had been increased by the multiple poverty traps which it has created. They underlined the importance of development assistance in lessening the impact of shocks and to establish compensation methods and social safety nets for the population most affected by shocks.

8. They examined the existing systems and other possible methods for protecting low income countries against exogenous shocks and urged bilateral and multilateral donors to:

- Accelerate the disbursement of additional resources in the framework of the existing mechanisms of compensatory financing in the wake of exogenous shocks, while insisting that the current ineffective forms of conditionality should be replaced by result based conditionality which would support faster disbursement and be more consistent with country ownership;

- Promote counter cyclical measures through the terms of new loans or debt rescheduling to reduce instability through the automatic disbursement of resources which would function as insurance for the poorest in the event of a negative shock.

9. The crisis has shown that the current instruments for providing compensation for exogenous shocks is ineffective. Ministers called on the Multilateral Development Banks to seize the opportunity to revise the aid allocation criteria and be willing to support countries resilience to shocks before their impacts are felt. They therefore recommended that the aid allocation formulae put a greater emphasis on structural vulnerability rather than performance indicators which tend to be subjective.

### **Diversifying sources of finance**

10. Ministers discussed options open to debt vulnerable countries in diversifying sources of finance while maintaining debt sustainability. They noted the need for a high degree of prudence in diversifying sources of finance, including building government systems and capacity to transparently and objectively assess options regardless of political, commercial or other pressures. The best option in most cases will be enhanced concessional flows and, in this context, Ministers urged donors to implement and go beyond their Gleneagles pledges to increase concessional aid. Such aid is needed more than ever in the light of the impact of the current economic crisis and funding needed to combat climate change. In particular Ministers called for:

- An accelerated timetable for further replenishments of IDA and the AfDF resources.
- Measures to offset MDRI induced reduction of concessional flows to some countries.
- A more gradual approach to graduation by the MDBs, and the continued provision of anti-shock concessional finance to graduated countries where debt or other vulnerability is high, and in support of social safety nets and measures to combat climate change.
- The IMF to review its policies on concessionality to link them more clearly to DSF results, and for the MDBs to review their non-concessional lending policies in parallel.
- All donors, including the new “southern” donors, to untie their aid and channel more through sector and budget support. Ministers agreed to encourage all donors to exchange experience in order to improve each other’s practices.

### **Fiscal Sustainability**

11. Ministers reviewed experience on the fiscal sustainability of differing levels of public debt. Ministers called for efforts:

- By the international community to establish norms for what constitutes domestic and external debt, and how fiscal sustainability is to be defined.
- By the IFIs to define in full collaboration with low income countries appropriate indicators and thresholds for domestic and total public debt sustainability, to be incorporated in the review of the DSF to be presented to the Annual meetings.

These norms and indicators should include appropriate treatment of guaranteed debt, contingencies and debts by sub-national authorities and agencies, all of which need to be managed responsibly.

12. Ministers committed themselves to compiling and publishing accurate and timely data on all types of public debt, and to strengthen capacity to analyse debt sustainability and formulate debt strategies as part of their budget process. Ministers called for increased donor resources to fund regional and national assistance to build capacity in these areas. They welcomed the work done by the Commonwealth legal clinic on developing a framework for fiscal responsibility, and urged governments to adapt the framework to their own country circumstances should they decide to adopt a fiscal responsibility law.

### **Debt for climate adaptation initiative**

13. Ministers discussed options for using debt relief as a mechanism for combating the effects of climate change, including through the buy back and conversion of commercial, bilateral and multilateral debt. They encouraged further work in the context of the ongoing UNFCCC process on the options for using such a facility.

Washington D.C., USA  
23<sup>rd</sup> April 2009