



**Commonwealth  
HIPC Ministerial Forum**  
Freetown, Sierra Leone, 2-4 March 2004

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**MINISTERIAL STATEMENT**

The Commonwealth HIPC Ministerial Forum held its fifth meeting on 2-4 March 2004 in Freetown, Sierra Leone. Finance Ministers or their representatives from the Gambia, Ghana, Sierra Leone, Tanzania, and Uganda attended. In addition, representatives from Nigeria, the United Kingdom, the IMF, the World Bank, WAIFEM, MEFMI, as well as civil society and the Parliament of Sierra Leone, attended by special invitation.

2. Ministers applauded the steadfast stewardship provided to the Forum since the Dar es Salaam meeting, by the outgoing Chairperson, Hon. Basil Mramba, Minister of Finance, United Republic of Tanzania and congratulated Hon. J. B. Dauda, Minister of Finance, Republic of Sierra Leone, on assuming the Chair.

3. Ministers reviewed the developments in the world economy as it impacted on HIPCs as well as the progress being made in implementing the HIPC Initiative and on ensuring long-term debt sustainability in these countries. They paid particular attention to the issue of investment in HIPCs, especially in infrastructure through private participation.

**World Economy, Sub-Saharan Africa and HIPCs**

4. Ministers observed that after a significant slowdown in activity for nearly three years, the world economy seemed to be on the road to recovery led by the United States and continuing robust growth in Asia. While growth in Sub-Saharan Africa, including HIPCs, had been resilient in the face of global economic slowdown and was expected to pick up with global recovery, they were concerned that it remained far too low to have any significant effect on meeting the Millennium Development Goals, most importantly halving of poverty by 2015. Such an outcome required growth to accelerate to more than 7-8 per cent, well above the rates enjoyed even by the strongest performers amongst HIPCs in the past decade. Ministers recognised that Africa faced a wide range of daunting challenges and required a multi-faceted strategy to address them, as emphasised in the New Partnership for Africa's Development (NEPAD). It was essential that domestic reforms were accompanied by substantially enhanced external assistance and removal of industrial country restrictions on developing country exports. In this respect,

they welcomed the establishment by the UK Prime Minister, Mr Tony Blair, of an International Commission on Africa to report in 2005 when United Kingdom takes the G8 chair. They also reiterated their support for the proposed new International Financing Facility designed to double ODA to \$100 billion.

### **Progress in HIPC Initiative**

5. Ministers expressed concern at the slow progress being made by the decision point HIPC's in reaching their completion points. They particularly underlined the need for flexibility by the IMF when interpreting policy slippages which arose due to factors beyond a country's control. They also emphasised that judgements on whether social and structural triggers had been met should be based on the broader view across triggers rather than on individual triggers. Ministers reiterated that many of the countries yet to reach the decision point were conflict affected and required continued flexibility in procedures and use of HIPC resources together with enhanced assistance from the UN agencies and the donor community in peace making, institution building, support for victims of conflict including those maimed as well as displaced people and refugees, rehabilitation and clearance of protracted arrears. They expressed the need for all eligible HIPC's to benefit from HIPC relief and therefore recommended the extension or abolition of the sunset clause. They also emphasised the need for all severely indebted low-income countries, which were not eligible for HIPC debt relief, to be provided adequate debt relief to put them on a path of long-term debt sustainability.

6. Ministers emphasised that any change in methodology in calculating the present value of debt should not reduce the level of debt relief currently available while topping up should be generously applied in all circumstances where it was warranted. Ministers welcomed the additional voluntary bilateral debt relief, including total debt cancellation, by a number of Commonwealth creditor countries and urged all other bilateral creditors to follow their example.

7. Ministers reiterated their concern at the continuing non-participation of a number of non-Paris Club bilateral, smaller multilateral and commercial creditors in the HIPC Initiative. They restated the need for collective diplomatic initiatives, involving the HIPC's, Bretton Woods institutions and bilateral donors, to bring non-participating non-Paris Club bilateral official creditors on board. They also called for the expansion of the funding of the HIPC Trust Fund to ensure full participation of all multilateral creditors.

8. Ministers expressed serious concern about the behaviour of some commercial creditors that had brought litigation against HIPC's. These creditors were now using new tactics in court to severely inconvenience the debtors and pressure them into making payment out of funds destined for poverty reducing activities. These tactics further delayed progress towards the MDGs. They reiterated the need for a more active approach by governments of countries where commercial creditors resided, including introduction of legal protection in these jurisdictions which ensured that HIPC's received as a minimum, debt relief on terms equivalent to the HIPC framework. They also called on

the Chair to explore, with the Commonwealth Secretariat, ways to assist HIPCs facing litigation.

### **Long-Term Debt Sustainability**

9. Ministers noted the heavy dependence of HIPCs on few primary commodities for their export earnings, the sharp fall in real non-oil commodity prices of 44 per cent between 1980 and 2002 and the strong association in the 1980s between falling real commodity prices and mounting debts. Although commodity prices had increased significantly from the lows reached shortly after the terrorist attacks on September 11, 2001, a secular long-term fall, together with frequently volatile movements, in commodity prices, was a danger to long-term debt sustainability. They called for a compensatory mechanism for providing additional debt relief to HIPCs if they were subject to export revenue shortfall due to adverse trends in commodity prices. They noted that a preliminary study commissioned by the Commonwealth Secretariat and UNCTAD had estimated that a real commodity price adjustment mechanism under the HIPC Initiative involving a time horizon 2000-2010 would cost approximately \$2 billion or only about \$200 million a year. Ministers therefore called on the international community to urgently establish such a mechanism.

10. Ministers observed that a preliminary study by World Bank staff had shown that debt distress in poor countries could be substantially explained by three factors: debt burdens, policy and shocks, and had recommended that the concessionality of aid should be altered by using a mixture of grants and loans, tailored to the risk of debt distress in each country. In this respect, Ministers reiterated their call on all DAC bilateral donors, which had not done so, to provide 100 per cent grant financing to HIPCs and to substantially expand their aid budgets. They also called on all multilateral agencies to provide, as a minimum, 40 per cent grant financing for vulnerable HIPCs, with the grant proportion significantly higher for those countries with higher debt distress possibilities.

11. Ministers reiterated the need to consider the domestic debt burden as part of overall debt sustainability.

12. Ministers recognised that long-term debt sustainability was an important element of sustainable economic development. They agreed that actions to improve debt carrying capacity were critical and that growth oriented policies would go a long way in improving this capacity.

### **Investment in HIPCs**

13. Ministers noted that one of the reasons for the relatively poor performance of the Sub-Saharan Africa and Latin America, including HIPCs among them, had been relatively low rates of investment compared to those in Asia and other regions of the world. They recognised the need to raise their investment levels to well over 25 per cent of GDP to make a significant impact. They also underscored the importance of raising

both private and public investment, as strategic public investment helped to crowd in private investment.

14. Ministers were pleased to note that, in general, countries benefiting from the HIPC Initiative had also seen a significant expansion in foreign investment inflows, with a higher contribution to gross domestic capital formation. They hoped that this process would continue as countries progressed through the initiative and more countries benefited from it. However, they emphasised that foreign investment would need to expand at a rapid rate to make a significant impact on investment levels in HIPCs.

15. Ministers emphasised the need for attracting export-oriented investment in HIPCs that not only contributed to rising exports but also allowed these countries, in an increasingly globalised economy, to upgrade their exports on a sustainable basis, thereby contributing to long-term debt sustainability and enhanced growth and development. This required each HIPC to find the most effective way to make its location conducive to higher value-added activities. Ministers recognised that macroeconomic stability and long-term structural factors such as technological capacity and human resources were crucial in making a location competitive, but there were also specific policies that could help attract export-oriented FDI.

16. Ministers emphasised that access to developed country markets for products of particular interest to poor countries needed to be further improved, especially by addressing tariff peaks, tariff escalation and non-tariff barriers in agriculture and textiles and clothing. They noted that preferential arrangements provided HIPCs a temporary window of opportunity to strengthen their locational advantages. However, they reiterated the need for urgently revisiting barriers such as rules of origin and general and product specific standards, which inhibited market access and product acceptability.

17. Ministers stressed the importance of improving access to imported inputs and of enhancing the capacity of HIPCs in trade facilitation to speed up the movement of goods and trade information. They recognised that the effectiveness of fiscal incentives as well as the performance of Export Processing Zones depended very much on other policies especially those aimed at enhancing the level of skills, technology and infrastructure. They also agreed on the need for streamlining the procedures for entry, reducing the time and cost of registering businesses and a systematic approach to aftercare services. They further recognised the importance of linkage between foreign affiliates and local suppliers as the key channel for diffusion of skills, knowledge and technology among domestic firms, and in particular formation of industrial clusters with strategic government intervention as appropriate.

18. Ministers noted that a number of developed and developing countries had been very successful in attracting substantial investment into their economies through targeted investment promotion. A targeted approach could assist HIPCs in identifying niches of potential comparative advantage and investors who may be interested in investing in HIPCs. Following the MIGA-Swiss targeted investment facilitation initiative, they

reiterated their call for expanded donor funding to assist all HIPCs to promote targeted investment.

### **Private Participation in Infrastructure Projects**

19. Ministers underlined the need to improve, modernise and expand physical infrastructure in their economies, including through expanded private participation, where appropriate. They were concerned that sufficient attention was not being paid to infrastructure issues in programmes supported by the international institutions and called for a re-balancing that recognised the importance, not only of education and health, but also of physical infrastructure for promoting growth and poverty reduction. In this context, it was important for the second generation of PRSPs to emphasise wealth generating strategies, including export generation, small and medium scale enterprises, and explicit linkages with the development of infrastructure.

20. They noted that HIPCs had carried out some projects with private participation but were concerned that some governments were constrained by their IMF programmes in carrying out viable Build Operate Transfer projects. They noted the tremendous efficiency gains that could be made through partnerships in infrastructure and other public services.

21. Ministers recognised that the key problem in infrastructure was one of designing an appropriate risk-sharing and pricing framework that balanced public and private interests and ensured an acceptable rate of return on capital to investors. They pointed out that most HIPC governments had now removed formal restrictions on the repatriation of earnings and many had also liberalised foreign exchange markets. But in order to reassure investors, they called upon IDA to provide guarantees, where appropriate, aimed at mitigating currency convertibility risks. They noted that investors had sought tariff structures which accommodated the exchange rate risk in infrastructure projects that generated revenue streams in local currency. But they were concerned that in some instances tariff changes required could be so large as to create political resistance and call into question the credibility of an otherwise well intended tariff policy. Ministers therefore highlighted the need for targeting first those activities that generated hard currency revenues and, among activities that did not generate foreign exchange, those where the political economy of tariff regulation raised fewer risks. They noted that communication and financial services could generally be wholly provided by the private sector, while public private partnerships could play a major role in power, transport and setting up of a reliable national information platform.

22. Ministers noted that a major problem arose in the area of water, retail electricity and passenger transport, which were either provided free or at heavily subsidised rates as a significant proportion of the population in HIPCs was poor and unable to afford full charges. Ministers called for donor support schemes in instances where economic costs of a service exceeded the users' capacity to pay.

23. Ministers noted that some projects would only be viable if conceived on a regional basis, especially those that facilitated transit transport to landlocked countries. They pointed to the Maputo corridor between Mozambique and a number of Southern African states as a successful example of regional co-operation involving private participation and hoped that such co-operation could be extended to other countries.

24. Ministers recognised that a large amount of capital with different tiers was required for infrastructure projects, but HIPCs had very limited access to international capital markets and to non-concessional lending. They stated that while a significant equity contribution would generally be provided by the concession holder and other domestic and foreign participants, international private equity funds for infrastructure, with official participation in initial stages, might have a role in providing the balance of the equity finance in large projects. With respect to debt finance, they called on multilateral agencies and bilateral donors to adapt their funding to suit private sector needs through the establishment of national Private Sector Infrastructure Development Funds that provided very long-term debt financing with long grace periods but with commercial rates of interest. Such funds could also play a catalytic role in attracting other sources of commercial and institutional finance, including export credit agencies.

25. Ministers recognised the need for HIPCs to decide upon clear frameworks within which they could encourage private participation in infrastructure. They noted the limited institutional capacity to deal with the private sector, especially where private-public partnerships were involved. They called upon donors to assist HIPCs to strengthen their capacity in this area, including through sharing of experiences. They also emphasized the need for the Commonwealth Secretariat and regional partners such as MEFMI and WAIFEM to strengthen their capacity on debt management where public-private partnerships were involved and provide practical hands-on help on overall debt management and through other forms of technical assistance and training.

### **Conclusion and Appreciation**

26. Ministers noted the communiqué prepared by the civil society representatives who met on 2 March 2004 in Freetown (attached). They were encouraged by the contributions of the civil society participants, and thanked the Commonwealth Foundation for facilitating their participation in the Forum. Ministers agreed that in their future substantive meetings they would also invite parliamentarians, in addition to civil society, to participate.

27. Ministers agreed that their statement should be forwarded to the Joint Implementation Committee of the IMF and World Bank and the IMFC and Development Committee as well as the Finance Ministers of key Commonwealth donors by the Chairperson of the Meeting, Hon. J. B. Dauda, Minister of Finance, Republic of Sierra Leone. They also agreed that the Chair should consult with Commonwealth and other donors with a view to facilitating targeted investment promotion and promoting private-public partnerships including in infrastructure.

28. Ministers expressed their appreciation to the President of the Republic of Sierra Leone, H.E. President Ahmad Tejan Kabbah, for finding time to see them and to Vice President, Hon. Solomon Berewa, for opening the meeting. They also expressed their gratitude to the Government and people of Sierra Leone for their warm hospitality and for the excellent arrangements for the Meeting. They also congratulated the Government and people of Sierra Leone for making great strides in rehabilitating the country after years of conflict.

29. Ministers recognised the need to work more closely with other development partners with a view to converging the timing of their future meetings to coincide with other similar meetings so as to minimize the requirements on their busy schedules and at the same time maximize the impact of their meetings. They mandated the Chairperson, together with the Commonwealth Secretariat, to explore with potential partners the possible modalities of future collaboration and report back at their sixth meeting in St. Kitts and Nevis.

Freetown  
4 March 2004