

Commonwealth Finance Ministers Meeting Grand Cayman, Cayman Islands, 21-23 September 1999

1. Commonwealth Finance Ministers met in the Cayman Islands from 22 to 23 September 1999. The Meeting was chaired by the Rt Hon Owen Arthur, Prime Minister and Minister of Finance and Economic Affairs, Barbados, and the Hon George McCarthy, Financial Secretary, Cayman Islands. Ministers reviewed recent economic developments; growth prospects and risks; proposals for enhanced debt relief for poor countries; prospects for aid flows to developing countries; proposals for improving the international financial architecture; the special challenges facing small states; a range of other issues concerning the International Monetary Fund (IMF) and World Bank; and the Report of the Commonwealth Group of Experts on Good Governance and the Elimination of Corruption in Economic Management. On all these issues, Ministers agreed to take forward their conclusions to the forthcoming Annual Meetings of the IMF and World Bank in Washington DC, meetings of groupings such as the G-8 and G-24 in which they were represented and to the Commonwealth Heads of Government Meeting in Durban, South Africa, in November 1999.

World Economic Situation

2. Ministers welcomed the growing signs of recovery in Asian and other economies affected by financial crises, and the continuing overall growth of the world economy and global trade. However, they believed there were downside risks to sustained recovery, including the possibility of a greater than expected slowdown in the US economy and a delayed recovery in Japan. They noted there would be some compensating offset from a pick-up in aggregate demand in East Asia. They stressed the important contribution to be made to the health of the global economy by a resumption of robust inflation-free growth in the Euro area economies.
3. Ministers noted that many developing countries continued to face serious constraints to their economic development. Several of them had been hit by declining commodity prices. Social indicators had been worsening, particularly in Africa, and the pace of improvements in poverty indicators since 1990 had been too slow to meet the agreed international development goals by 2015. Ministers believed that this further underscored the need for ensuring sustained global growth, mobilising financial flows for development and continuing expansion of trade through access to industrial country markets. Ministers agreed the Commonwealth should work towards the development of a framework for global stability, encompassing both economic and social dimensions.
4. In their deliberations, Ministers noted that in mitigating the financial crisis, policy options available to economies should not be confined to standard policy prescriptions. The recent experience indicated that flexibility in the choice of policy instruments in times of crisis could be considered at the same time as pursuing structural reforms.

5. Ministers noted that important negotiations would be held on the question of a new trade round at the Seattle Ministerial Meeting of the World Trade Organisation later in the year. They called for full and balanced implementation of the Uruguay Round Agreements in order to support a successful launch of a new round. They also hoped, as one objective, that the negotiations would lead to a real improvement in trade opportunities for developing countries. In addition, they underscored the importance of addressing the special problems faced by small states in responding to the changes in international trading rules.
6. Ministers expressed concern about the negative impact of the long-term decline in commodity prices. They also agreed that the Commonwealth should assist the relevant countries in their negotiations on post-Lomé arrangements.

Heavily Indebted Poor Countries (HIPC) Initiative - Debt Sustainability and Poverty Reduction

7. Ministers welcomed the Köln proposals of the G-8 which would provide faster, wider and deeper debt relief through major changes in the HIPC framework. They also welcomed the greater emphasis on growth and poverty reduction as the ultimate objective of debt relief, and called for the proposals to be endorsed at the upcoming meeting of the Development Committee.
8. Ministers believed that debt sustainability targets should be set to ensure a permanent exit from the debt problem with a view to achieving poverty reduction targets by 2015. They emphasised that adequate debt relief should be provided to give countries a realistic chance to achieve internationally agreed development targets, and called for special consideration for post-conflict countries.
9. Ministers noted that many of the HIPC countries had undergone political transformation and had effected comprehensive economic reforms. They agreed that the new millennium must provide a new chance for these countries, with debt relief translated into social spending, including the implementation of poverty eradication plans. They called on the international community, including the IMF and World Bank, to keep the operation of the HIPC Initiative under review with a particular focus on the fiscal burden of debt in assessing sustainability. They agreed it was important to address the problem of non-Paris Club bilateral debt that could not be rescheduled on comparable terms.
10. Ministers emphasised the need to facilitate regular consultations and sharing of experience among HIPCs as well as creditors, and requested the Commonwealth Secretary-General to facilitate this process. They also called on the Secretariat to continue its programme of assisting debtor countries to maintain effective debt management systems. Funding of Debt Relief and Official Financial Flows for Development
11. Ministers emphasised the continuing crucial importance of Official Development Assistance for developing countries and the need, wherever possible, to augment such flows to help these countries to meet the agreed

goals for global poverty reduction. In this context, they stressed the need to finance the enhanced HIPC Initiative and the IMF's Enhanced Structural Adjustment Facility (ESAF) in a way that created additional resources for developing countries.

12. Ministers agreed that the contribution from the World Bank and other multilateral development banks (MDBs) should be funded, to the extent possible, in a way that would not reduce finance available for the International Development Association (IDA) or other soft loan facilities, nor burden developing countries through an increase in interest rates by the MDBs. They also agreed that the IMF should play its part in financing the enhanced HIPC Initiative bearing fully in mind the need for equitable burden sharing. In this regard, they welcomed recent proposals by the Fund's management for mobilising the necessary funding. Ministers took note of the concerns of gold producing and gold-dependent countries, and agreed that any financing solution for HIPCs involving the use of the Fund's gold should be limited to 'off-market' measures. They looked forward to a formal decision during the forthcoming joint meeting of the Interim and Development Committees in order to remove uncertainty for HIPCs.
13. Ministers endorsed the proposal to seek additional funding for debt relief, including access to unspent funds in the European Development Fund.
14. Ministers also agreed that the international community should adopt a flexible and positive approach to the debt problems of developing countries that were not HIPCs.

International Financial Architecture

15. As the Special Theme of their Meeting, Ministers discussed all aspects of the continuing debate since their Ottawa Commonwealth Statement on the Global Economic Crisis, adopted in October 1998, on ways to improve the present international financial architecture. They considered ways to reduce the vulnerability to financial crises of the global system and individual countries by a combination of crisis prevention and crisis resolution measures. They also discussed ways of strengthening the global institutional framework for discussing and handling these issues by increasing the participation of developing countries in relevant fora. They were greatly assisted in their task by the paper prepared by Dr Montek S Ahluwalia entitled "Key Issues in Reforming the International Financial Architecture".

Crisis Prevention

16. Ministers attached importance to the range of international actions being taken to reduce the risk of future crises. They stressed the importance of sound macroeconomic policies and appropriate exchange rate regimes; greater transparency, better flow of information and improved surveillance; and action, where appropriate, to strengthen national financial systems by upgrading prudential norms to meet international standards, taking into account differences in initial conditions and the development of institutional infrastructure and legal systems in individual countries. Ministers requested

the Secretariat to facilitate the sharing of experience and expertise in strengthening national financial systems.

17. Ministers emphasised the importance of ensuring stability in the global financial system through increased transparency and disclosure by financial institutions, particularly relating to the activities associated with heavily leveraged institutions (HLIs); and continuing to consider closer oversight of institutions lending to HLIs. They stressed the importance of action to alter banking regulations that encouraged excessive short-term lending to countries. They also urged the improvement of regulatory standards in offshore as well as other financial centres, where appropriate, including effective regulation to counter money laundering and tax crime.
18. Ministers stressed the need for a mechanism to monitor the functioning of the international financial system as a whole, including private sector financial intermediation. While welcoming the formation of the Financial Stability Forum (FSF), they called for an urgent examination of ways to include systemically important developing countries. Ministers urged the FSF to undertake its task of making concrete recommendations with a sense of urgency despite the current economic recovery.
19. Ministers also believed that it would be helpful for developing countries accessing international financial markets to develop a more structured system of regular official-private sector dialogue.
20. Ministers agreed that orderly and sustainable capital account liberalisation could contribute to economic growth. Normally, controls on longer term flows should be liberalised first, with market-based instruments retained for short-term flows until all necessary pre-conditions for successful liberalisation had been met. They also agreed that the IMF had a key role to play in drawing the lessons from successful liberalisation efforts and in helping countries choose regimes appropriate to their circumstances. They recognised that countries could retain flexibility in applying controls on capital movements in the interest of macroeconomic stability. They agreed that liberalisation should follow rather than precede action to strengthen national financial systems, including prudential regulation.

Crisis Resolution and Role of the IMF

21. Ministers agreed that the Fund must continue to perform the role of principal crisis manager in the international financial system but public resources must be used discerningly and only with appropriate conditionality to avoid moral hazard. They also agreed there must be greater incentives to involve the private sector as well as mechanisms to ensure that creditors bore part of the burden of adjustment.
22. Ministers agreed that further consideration should be given to other ways to supplement IMF resources to deal with financial crises. In examining the role of Fund financing to support adjustment, Ministers recognised that the design of adjustment programmes to handle capital account crises posed special problems since such crises were frequently caused by a loss of confidence which could not be easily regained. They welcomed the creation of the new

IMF Contingent Credit Line; and agreed that, when appropriate, further consideration could be given to other ways to supplement IMF resources to deal with financial crises.

23. Ministers agreed there was a need for greater private sector participation in debt workouts and urged the Fund to pursue the issue further.

Governance Structure

24. Ministers reiterated the need expressed at their meeting in Ottawa in October 1998 for a broad-based discussion of issues involved in the reform of the international financial architecture. They agreed on the need for a new global forum which would allow substantive discussion of issues and give the systemically important and other developing countries a more effective voice in shaping the global financial architecture.

25. Ministers noted a number of options that had been put forward in this regard, ranging from a new informal grouping to a new overarching ministerial group above the present Interim and Development Committees. They recommended that these and other options be considered further in various fora with a view to achieving international consensus and ensuring broader participation of countries, including systemically important industrial and developing countries, in discussions on the global financial architecture. They undertook to discuss these ideas as a matter of urgency in the various groupings to which they belonged and requested the Secretariat to monitor developments in relation to all aspects of the global financial architecture and report to Finance Ministers in 2000.

Small States

26. Ministers reviewed the progress report on the work of the joint Commonwealth Secretariat/World Bank Task Force on Small States. They proposed the report be revised to take into account their deep felt concerns on this issue and recommended concrete actions by the Commonwealth, World Bank and other partner institutions. Ministers looked forward to the completion of a revised draft report for consideration by the 1999 Commonwealth Heads of Government Meeting, and a final report for the April 2000 meeting of the Development Committee. Ministers noted the concern expressed by some Commonwealth governments regarding the OECD's report on harmful tax competition.

Comprehensive Development Framework and other IMF and World Bank Issues

27. Ministers welcomed the World Bank's initiative on the Comprehensive Development Frameworks. They noted the importance of learning from the country pilot projects already under way, and of developing an approach that allowed for differing country circumstances and was politically practical. They asked the Commonwealth Secretariat to continue to co-operate with the Bank in developing the concept and in country pilot studies.

28. Ministers also welcomed the work being undertaken by the World Bank on good practice in social policies, and the report to the Development Committee on Preventing and Managing the Social Dimensions of Crises.

Good Governance and Combating Corruption

29. Ministers endorsed the Report of the Commonwealth Expert Group on Good Governance and the Elimination of Corruption in Economic Management, emphasising the importance of zero tolerance for all types of corruption at national and global levels. They agreed that any ranking of levels of corruption prevailing in different countries should be based on an improved methodology for such quantitative assessments. They commended the Framework for Commonwealth Principles proposed by the Group for consideration by Commonwealth Heads of Government in South Africa, as the basis for the adoption of a concerted strategy to promote good governance and combat corruption, including periodic reviews of follow-up to the Expert Group's recommendations.

Commonwealth Development Co-operation

30. Ministers welcomed the valuable development assistance that continued to be provided by the Commonwealth Fund for Technical Co-operation (CFTC) to member countries, especially in the areas of debt management, financial market development, trade, governance and public sector reform. They again encouraged governments to contribute to the CFTC in line with their best recent efforts. Ministers also emphasised the importance of timely payments so as to permit the CFTC to fully realise the approved Plan of Expenditure for 1999/2000.
31. Ministers welcomed the agreement by Commonwealth countries in Eastern and Southern Africa to launch a group to co-ordinate anti-money laundering strategies. They looked forward to the early entry into force of the Memorandum of Understanding that would enable the Group to begin its programme of work.
32. They welcomed the achievements of the Commonwealth Private Investment Initiative and looked forward to the establishment of successor regional funds in Africa and the Pacific Islands in the year 2000, which would be further evidence of the mobilisation of private sector capital flows to developing countries. They agreed that an expansion of the Initiative was desirable and urged the Secretariat and the Commonwealth Development Corporation to examine new avenues.
33. Ministers urged Commonwealth countries which had export credit guarantee facilities to consider expanding them and encourage international credit guarantee agencies to re-examine the scope for changing the profile of developing country assets into "safe assets" by expanding schemes of investment credit guarantees. They also encouraged sharing of experience and expertise, particularly in the legal and fiscal areas, where Commonwealth countries shared common practices, in order to encourage inward investment.

34. Ministers welcomed the assistance provided by the Commonwealth Year 2000 Facility in helping 34 Commonwealth governments and regional organisations to develop and implement comprehensive strategies to deal with the Millennium Bug problem. They called on those governments that had not yet completed Year 2000 (Y2K) compliance applications to formulate national plans in order to be better able to cope with Y2K-related disasters, should they arise.
35. On the impact of Hurricane Floyd on The Bahamas, Ministers expressed their sympathy for the extensive damage to several islands. They noted that The Bahamas was implementing measures to ensure speedy recovery in the affected islands.
36. On the appropriate international response to natural disasters, Ministers proposed that existing international mechanisms for assistance to meet pre- and post-disaster requirements of vulnerable countries should be strengthened. Ministers recommended that consideration be given to the creation of new windows in international financial institutions to provide financing, that was both adequate and timely, for disaster preparedness as well as post-disaster reconstruction and rehabilitation of infrastructure. They agreed that the Secretariat's paper on this subject should be forwarded to Commonwealth Heads of Government.
37. Ministers welcomed the work of the Commonwealth Partnership for Technology Management (CPTM) and urged Commonwealth governments and the private sector to continue to provide financial support to CPTM.

Commonwealth Business Council (CBC)

38. Ministers acknowledged the important role that the CBC played in representing the views of the private sector, noting with pleasure the broad spread by number and geography of its membership. They recognised the need to take account of these private sector views in policy formulation and its role as a partner in creating conditions for maximising trade and foreign direct investment flows in Commonwealth countries. They agreed that the CBC should prepare draft Commonwealth Principles of Best Practice on the relationship between international companies and countries, for consideration at their meeting in 2000. They appreciated the work carried out on liberalisation of financial services and the proposed co-operation with governments to develop guidelines for liberalisation of financial markets which would be relevant to countries at different stages of development.

Tribute to the Commonwealth Secretary-General

39. Recognising that Chief Emeka Anyaoku's outstanding tenure as Commonwealth Secretary-General was coming to an end, Ministers commended warmly the leadership and direction he had provided the association and recognised his unswerving commitment to the promotion of the ideals of the Commonwealth. They expressed particular appreciation for the wise counsel and guidance he had provided during their annual meetings. The number of initiatives launched during his stewardship bore ample testimony to his outstanding contribution to all aspects of the development

process in Commonwealth countries. Ministers also expressed their warm regards to Mrs Anyaoku and the Secretary-General and wished them well for the future.

Appreciation

40. Ministers expressed their appreciation to the Government and people of the Cayman Islands for their warm hospitality and for the excellent arrangements for the Meeting.

Next Meeting

41. Ministers agreed that the venue for their meeting in 2000 would be decided after further consultations. They accepted with pleasure the invitation to meet in the United Kingdom in 2002, the Queen's Jubilee Year.

23 September 1999