

## **MINISTERIAL STATEMENT**

The Commonwealth HIPC Ministerial Forum held its third meeting on 26-28 February 2003 in Dar es Salaam, Tanzania. Finance Ministers or their representatives from Cameroon, Ghana, Kenya, Malawi, Mozambique, Sierra Leone, Tanzania and Uganda attended. In addition, representatives from the IMF, the World Bank, Crown Agents and TASOET attended by special invitation. The meeting was organised by the Commonwealth Secretariat, in collaboration with Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

2. Ministers reviewed the developments in the world economy and their impact on HIPCs as well as the progress being made in implementing the HIPC Initiative. They focused particularly on long term debt sustainability and the aligning of their poverty reduction strategies with the millennium development goals.

3. Ministers expressed deep concern at the continuing malaise in the world economy. Low commodity prices have severely affected HIPC export earnings. They also noted that fears of war have continued to undermine investor and consumer confidence in major economies and led to a sharp increase in the oil price, significantly increasing the import bills of HIPCs, and undermining their growth prospects. Ministers called upon the international community to consider ways of mitigating the adverse effects. They expressed concern that there were substantial additional risks associated with a protracted war.

4. Ministers stressed that the HIPC Initiative had generated significant benefits for HIPCs in releasing vital resources for education, health and other pro poor programmes. They called upon the international community to maintain the momentum of the Initiative.

5. Ministers noted that there had been no change in the number of countries that had reached their decision and completion points since they last met in London. They reiterated that many of the countries yet to reach the decision point were conflict affected and required continuing flexibility in procedures and the use of HIPC resources. In countries yet to reach completion point, they emphasised the need for preparation of PRSPs without undue delay, with assistance provided where necessary. They also called for case by case flexibility when examining policy slippages so that these countries reach their completion points on target.

### **Non-participating Creditors**

6. Ministers expressed serious concern that a number of non-Paris Club bilateral, small multilateral and commercial creditors had not agreed to participate in the initiative or provide relief on HIPC terms to all eligible countries.

7. With respect to non-Paris Club bilateral creditors, Ministers were pleased to note that a number of non-HIPC non-Paris Club Commonwealth creditors had agreed to provide relief and expressed the hope that this gesture would be followed by others. However, they noted that there were special difficulties when HIPCs did not have diplomatic relations with certain creditors;

where creditors' relations with the international community were strained; or where they were not Fund/Bank members. They called for the mounting of collective diplomatic initiatives, involving the HIPCs, the Bretton Woods Institutions and bilateral donors, to bring these creditors on board, including convening a meeting of non-Paris Club creditors at the time of the Bank/Fund Annual Meetings. They also called upon the IMF and the World Bank to publicise the names of non-participating creditors to encourage them to participate in the Initiative.

8. Ministers called for an urgent examination of ways in which HIPC creditors could be helped to provide relief to HIPC debtors and in this respect welcomed the proposal being considered by the Bank/Fund for the establishment of a Trust Fund financed by donors designed specifically for this purpose.

9. Ministers noted that while a majority of smaller multilateral creditors were providing relief, this was often done on a case by case basis. At the same time, some of these creditors have still not expressed an intention to provide relief. Ministers urged all multilateral creditors to join the initiative and called for expansion in the funding of the HIPC Trust Fund to help facilitate their full participation. They agreed that they would approach the donor community collectively to introduce greater flexibility into the HIPC Trust Fund to enable it to respond to this need.

10. Ministers expressed concern that an increasing number of HIPCs continued to face litigation. They called for a more proactive approach by the governments of countries where commercial creditors resided. This could include the introduction of legal protection in these jurisdictions which ensured that HIPCs received, at a minimum, debt relief on terms equivalent to the HIPC framework. Ministers called upon HIPC governments, where appropriate, to use the IDA Debt Reduction Facility and urged its adequate funding. They also emphasised the need for donors to provide prompt technical assistance to prevent or address potential litigation. They called for a facilitative mechanism that would assist HIPCs to enlist the support of governments of countries where the commercial creditors are located.

11. Ministers expressed their commitment to mobilising collective action among all HIPCs, both within the Commonwealth and outside, on these issues related to non participating creditors, which were undermining the efforts of their countries to achieve debt sustainability. They also recognised the important advocacy role that civil society, local and international, can play.

### **Exogenous Shocks and Contingency Financing**

12. Ministers noted that of the 20 countries in the interim period, 10 were expected to show debt ratios in excess of the threshold at the time of their completion points. They emphasised that in considering the need for topping up, it was important to recognise the difficulty of differentiating between exogenous shocks and policy slippages. They also felt that additional voluntary bilateral debt relief provided beyond HIPC relief should not be taken into account when considering topping up, as such relief provided a much needed cushion against future shocks.

13. Ministers observed that HIPCs typically had a very narrow resource base which made them highly vulnerable to volatility in international commodity prices. They were concerned that future shocks could push debt ratios of completion point countries above threshold levels.

14. Ministers emphasised the need for developing alternative macroeconomic scenarios within the context of PRSPs that reflected a country's vulnerabilities and the uncertainties of the external environment. This could facilitate development of contingency plans and a timely response to prevent countries falling back into unsustainable debt. In this respect, they reiterated their call on the international community to explore actively new mechanisms, such as a concessional contingency financing facility in the IMF, and/or IDA loans with risk sharing features, to insure HIPC graduates against reversion to unsustainable debts over a substantial period of time in the future.

### **Long Term Export Growth, Market Access and Investment for Diversification**

15. Ministers emphasised that long term debt sustainability required HIPCs to promote export growth and diversification. They noted that most HIPCs enjoyed almost duty and quota free access for the vast majority of their export products in the markets of major developed countries. However, they urged that barriers such as rules of origin and general and product specific standards, which inhibit market access, should be urgently revisited. Ministers also reiterated their strong call, made in Lilongwe and London, for a reduction in agricultural subsidies in industrial countries.

16. Ministers noted that many HIPCs had not shared significantly in the expansion of exports resulting from preferential arrangements, partly because of poor infrastructure and inadequate investment. They particularly underscored the need for improved infrastructure and communications as well as increased private investment for diversification in HIPCs, taking advantage of these preferential arrangements. In this respect, they welcomed the MIGA-Swiss targeted investment facilitation initiative and called for this initiative to be extended to all HIPCs with substantially expanded donor funding. Ministers called for donor assistance to build capacity for effective investment promotion and commercial diplomacy in the major economies and emerging markets to publicise the business opportunities in HIPCs.

### **Terms of Donor Financing and Debt Management**

17. Ministers noted that long term debt sustainability also required strengthened debt management, including prudent new borrowing. They welcomed the decision by IDA-13 to provide up to 40 per cent of its resources to eligible vulnerable countries in the form of grants. They, however, underscored the importance for all major multilateral creditors to move, as a minimum, to 40 per cent grant financing for vulnerable HIPCs and for DAC bilateral donors, which have not done so, to provide 100 per cent grant financing to HIPCs, with substantially expanded aid budgets.

18. Ministers called for further untying of aid and increased budgetary support, so that aid allocation was made on the basis of the priorities established by governments within their medium-term expenditure frameworks. Noting the good practice in Tanzania, they emphasised the value of co-ordination among donors and HIPC governments.

19. Ministers recognised the need for external borrowing to generate sufficient rates of return to service the debt and secure positive development outcomes. They noted the importance of domestic resource mobilisation, including effective collection of taxes and widening of the tax base, so that government revenues can be increased substantially to meet priority expenditures. At the same time, they emphasised the large efficiency gain that could potentially be achieved through better public expenditure management, lowering their reliance on foreign borrowing.

20. Ministers noted the crucial importance of strengthening debt recording and management capacity in HIPCs and in this respect welcomed the customised assistance from the Commonwealth Secretariat, regional organisations such as MEFMI and others.

### **Domestic Debt and Broader Fiscal Sustainability**

21. Ministers pointed out that fiscal sustainability required consideration of both external and domestic debt. They underlined the importance of strengthened efforts at data collection and welcomed the Commonwealth Secretariat's domestic debt module in its CS-DRMS software, which could be an important management tool.

22. Ministers stressed that servicing domestic debt was a significant burden on the budget due to the shorter maturities of domestic debt instruments and high interest rates. In addition, Ministers noted with concern that governments had substantial arrears to suppliers and contingent liabilities. Ministers recognised that addressing the domestic debt burden would require committed action by HIPC governments, including effective monetary, budgetary and debt management, and concerted support from donors.

### **Aligning PRSPs to meet the Millennium Development Goals**

23. Ministers underscored the importance of PRSPs as a national strategy to achieve the MDGs. Although significant progress had been made in many Commonwealth HIPCs in preparing and implementing PRSPs, Ministers recognised the challenges ahead in establishing the PRSPs as a national expression of medium-term development priorities. They highlighted the importance of broad consultations as a basis for national consensus and agreed to embed future consultations in the existing institutional framework of the country, including parliament, local and community governments, and civil society organisations. They emphasised the need for costing PRSPs and ensuring their alignment with the budgetary cycle, the macroeconomic framework, and the medium-term expenditure framework. They urged donors and creditors to ensure predictability in their support for PRSPs and alignment and harmonisation of their policies and practices to lower the associated costs of development assistance. In this context, they were encouraged by the Rome Declaration on Harmonisation by the heads of multilateral and bilateral development institutions.

24. Ministers recognised the challenges involved in prioritising expenditures among important competing claims in the context of scarce resources and the need for developing realistic development scenarios.

25. Ministers noted that the resources released through debt relief were insufficient to bridge the gap between financing needs and available resources for current poverty reduction initiatives. They also recognised that even with the new aid commitments made at Monterrey and after, the resources would still fall far short of the requirements to reach the MDGs. They, therefore, emphasised the need for an increase and a redirection of aid to poor countries. In this connection they strongly supported the initiative proposed by the UK Chancellor of the Exchequer for a new International Financing Facility designed to double ODA to \$100 billion.

26. Ministers agreed that their statement should be forwarded to the Ministerial Meeting of the Africa Group I Constituency, and to the Joint Implementation Committee of the IMF and World Bank, as well as the IMFC and Development Committee by the Chairperson of the Forum, Hon Basil Mramba, Minister of Finance, United Republic of Tanzania.

27. Ministers expressed their appreciation to the Vice-President of the United Republic of Tanzania, H.E. Dr Ali Mohamed Shein, for opening the meeting, and Hon Joseph Mungai, Minister of Education and Culture, for his illuminating presentation on Tanzania's Primary Education Development Plan. It is being implemented through innovative partnerships which empower local communities and take advantage of strengthened recipient/donor collaboration. They also thanked the Government and People of Tanzania for their warm hospitality and for the excellent arrangements for the Meeting.

28. Ministers agreed to review progress at their next meeting in September 2003.

Dar es Salaam  
28 February 2003