



## **Commonwealth HIPC Ministerial Forum**

**Center for Global Development, 1776 Massachusetts Avenue NW  
Suite 301, Washington DC, 12<sup>th</sup> April 2007**

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### **MINISTERIAL STATEMENT**

1. The Commonwealth HIPC Ministerial Forum held its eleventh meeting on 12 April 2007 hosted by the Center for Global Development (CGD) in Washington DC, USA. Finance Ministers or their representatives from Cameroon, the Gambia, Ghana, Guyana, Mozambique, Sierra Leone, Uganda, United Republic of Tanzania and Zambia attended. In addition representatives from Burkina Faso, Cambodia, Madagascar, Niger, the United Kingdom, Australia, New Zealand, African Development Bank, Crown Agents, the IMF, Inter-American Development Bank, Macroeconomic & Financial Management Institute of Eastern and Southern Africa (MEFMI), Organisation Internationale de la Francophonie (OIF), West African Institute for Financial and Economic Management (WAIFEM), the World Bank, as well as the civil society attended by special invitation.
2. Ministers applauded the steadfast stewardship provided to the Forum by the outgoing chairperson, Hon Ng'andu P Magande, Minister of Finance and National Planning, Zambia, and congratulated Hon Kwadwo Baah-Wiredu, Minister of Finance and Economic Planning, Ghana, on assuming the Chair.
3. Ministers reviewed progress in implementing the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) and considered the specific issues of free riding; odious debt; domestic debt; effective debt management and avoiding litigation; private-public partnerships; and external aid effectiveness and building the missing middle-class in Africa.

#### **Progress in Implementing the HIPC Initiative and the MDRI**

4. Ministers were pleased that Sierra Leone had reached the HIPC Completion Point and expressed the hope that all the remaining Decision Point HIPCs (including the Gambia) would reach their completion points speedily. They welcomed the ringfencing of all countries which meet the income and indebtedness criteria for HIPC eligibility based on end-2004 statistics. They noted that this would allow countries in conflict; protracted arrears; or those which had not met the policy eligibility criteria to eventually benefit from the HIPC Initiative. They urged donors to mobilise adequate resources to address the problems of countries with substantial arrears to expedite their HIPC eligibility.

5. Ministers remained concerned about the continuing low participation of non-Paris Club bilateral and commercial creditors in providing HIPC relief. They reiterated their earlier recommendation for collective diplomatic initiatives, involving HIPCs, Bretton Woods institutions and bilateral donors, to bring non-Paris Club bilateral creditors on board. They were particularly alarmed at the lawsuits filed against HIPCs by some commercial creditors, especially the so-called vulture funds. They appreciated the setting up of a HIPC Debt Clinic by the Commonwealth Secretariat for assisting Commonwealth sovereign debtors facing creditor litigation and for negotiating or renegotiating foreign debts with a view to minimising creditor lawsuits in the future. They also emphasised the need for concerted international action to address this problem. In this connection, they called for a more proactive approach by both the Bretton Woods institutions (which are urged not to regard a more proactive support for HIPCs in debt litigation as compromising their neutral and impartial role in creditor-debtor relationships) and governments of countries where commercial creditors reside. The latter were urged to introduce legal protection to ensure that, as a minimum, debt relief was provided on terms equivalent to the HIPC framework.

6. Ministers were pleased that, following IMF and IDA, the African Development Fund (AfDF) had started implementing the MDRI and that the Inter-American Development Bank (IADB) had also agreed to participate in the MDRI. However, they were concerned that IADB resources for MDRI would result in a significant reduction in resources for MDRI recipients. Ministers urged immediate negotiations for the replenishment of Fund for Special Operations (FSO).

7. Ministers expressed serious concern that the benefits accruing to post-MDRI countries were significantly less than expected. They attributed this, inter alia, to donors' inadequate assurance of compensatory financing to the international financial institutions (IFIs) to defray the costs of implementing the MDRI that would stretch over a very long time period. They reiterated the need for adequate donor funding to fully compensate IFIs for their share of MDRI relief on an ongoing basis so that their financial capacity is protected and their ability to assist Low Income Countries (LICs) is not impaired. They particularly called for revisiting the proposal for donors to provide a 100 per cent guarantee to the IFIs. This could be effected through an upfront payment equivalent to the capitalised sum of future debt servicing payments foregone by IFIs on the eligible debts.

8. Ministers re-iterated their disquiet at the application of the existing performance based allocation (PBA) formula in allocating MDRI-induced compensatory finance from donors. They stressed that this discriminated against those IDA recipients with lower per capita incomes and negated the underlying rationale of MDG attainment that prompted the launching of the MDRI by the G8. They reiterated their recommendation that the need to achieve MDGs be given the same weight in the formula for allocating MDRI-induced additional donor contributions, as that accorded to the country performance ratings in the IDA allocation formula.

9. Ministers continued to be concerned at the situation whereby MDRI relief becomes effective only once a country attains the completion point under the HIPC Initiative by which time debts that are eligible for MDRI relief could have been fully or partially repaid. They reiterated the need for exploring of a number of options they had identified at their April 2006 meeting. They emphasized, in particular, delivery of MDRI to take retroactive effect from a particular common date (with refunds made for repayments already made on eligible debts) and/or de-linking MDRI from the HIPC process as in the case of Cambodia and

Tajikistan. They also re-iterated that the IMF should put those HIPC's with per capita income below \$380 on the same footing as the Cambodia and Tajikistan by providing them with fast track MDRI treatment.

10. Ministers repeated the desirability of widening, for reasons of equity, the scope for MDRI to include all IDA-only countries (including those countries which do not qualify for HIPC). They also re-emphasized the need for comprehensive solutions to the debt problems of highly indebted small states, which face special challenges.

### **Free Riding**

11. Ministers noted the concern expressed by the World Bank regarding the free-rider problem, which refers to situations in which HIPC/MDRI debt relief or IDA grants, determined through the Debt Sustainability Framework (DSF), could potentially cross-subsidise lenders, especially newly-emerging lenders, that offer non-concessional loans. Ministers also noted IDA's proposed response to such free riding, which include using DSF as a policy anchor for determining whether loans are concessional; for enhancing creditor co-ordination, through creation of an appropriate institutional framework that also involves smaller multilateral creditors and non-Paris Club bilateral creditors; and for sanctioning LICs that raise non-concessional loans and breach the concessional guidelines.

12. Ministers emphasised the need for the World Bank to refrain from perceiving itself as a competitor with other creditors, and to focus on its crucial role of catalysing funds for LICs. They pointed out that it has done this through creating borrowing space through grants and debt relief. They pointed out that the World Bank had always cross-subsidised other creditors, and that the argument of preventing taxpayers' money in donor countries being used to cross-subsidise other creditors should not be allowed to detract from the objective of preventing LICs reverting to an unsustainable debt situation.

13. While recognising a number of potential benefits of the World Bank's proposed anti-free rider policy, Ministers were concerned that the intensive oversight by the World Bank on LICs borrowing decisions may run counter to the principle of ownership and alignment highlighted in the Paris Declaration. They also raised concerns as to whether many official and commercial creditors would abide by the DSF guidelines if it were not in their interest to do so; whether the penalties proposed for concessional breach would deter LICs where IDA resources were low in relation to potential non-concessional borrowings; and whether exclusion of domestic debt in the DSF would not impair the effectiveness of the policy. They urged the Bank to address these concerns.

14. Ministers were concerned at the decline in aid flows in 2005 and 2006 and called upon donors to meet the commitments on aid they had made at the Gleneagles G8 and Millennium +5 summits. They further called upon donors to translate their pledges made at these Summits into increased aid delivery. They also emphasised that additional resources would be needed even beyond this for the attainment of MDGs.

15. Ministers perceived the inadequacy of external concessional finance, including from the World Bank, as a factor driving low-income countries to raise non-concessional loans. They urged the Bank to review its policies on the netting off mechanism in MDRI implementation, the PBA allocation mechanism and the volume reduction on grants, with a view to removing the existing bias against very poor low-income countries.

16. Ministers stressed that restrictive conditions on borrowing would undermine the capacity of democratically elected governments to raise external loans to promote growth, achieve the MDGs, and meet the expectations of their people. They acknowledged that judicious borrowing required strengthened debt management capacity in LICs, complemented by a proper legal framework, including fiscal responsibility laws. In this respect, they welcomed the World Bank's proposal for a global partnership to strengthen debt and macroeconomic management in LICs. They believed that this partnership should be institutionalised (in a form that is similar to the Integrated Framework for Trade-related Assistance) to build debt management capacity and promote best practices.

### **Odious Debt**

17. Ministers appreciated the presentation by civil society on odious debt and their call for caution in giving loans to regimes that are odious, likely to be corrupt or lack governance capacity to use loan resources judiciously. They commended the Government of Norway for unilaterally cancelling such debts that were outstanding and called on other creditors to follow suit. In addition, they called for the refunding of payments made on all odious debts. They noted that a number of suggestions had been made for dealing with this issue, including proposals for an international body for declaring infamous regimes odious and for establishing an international arbitration mechanism for verifying lending to such regimes. They welcomed the suggestion that HIPC's audit their existing debts and those already repaid with a view to identifying any odious component. They urged the Commonwealth Secretariat to assist HIPC's in collating information and in facilitating negotiations with creditors.

### **Domestic Debt**

18. Ministers reiterated their concern that high domestic debt and debt servicing were curtailing development prospects in many LICs and repeated their call for a comprehensive approach to address this problem. They called for action not only by LICs themselves, but also the international donor community.

19. Ministers noted various challenges faced by low-income countries in the area of domestic debt management. They urged these governments to strengthen their domestic debt management capabilities by adopting strategies that lead to the improvement of the domestic database (including verification and centralised recording of arrears, other non-securitised debts and contingent liabilities); carrying out public (i.e. external and domestic) debt sustainability analyses regularly and effectively; and securitisation of government arrears through offer of incentives to settle upfront a certain proportion or all the arrears up to a certain limit. They called on all the debt-related capacity building institutions to address these needs in low-income countries.

20. Ministers recognised that the key to dealing with the onerous domestic debt service burden lay in reducing the high cost of domestic borrowing and extending the very short maturities of existing debt. This implied the need to maintain a low inflation environment to ensure that both nominal and real interest rates remain low and the gradual expansion of longer term issues to take advantage of falling risk premiums, without significant increases in yield. Policies were also needed to improve the infrastructure for trading in government securities, broaden the investor base, including promotion of investment by retail and institutional investors, and deepening of financial sector development. Apart from technical and financial assistance in this latter regard, Ministers saw particular value in donor

assistance to extend domestic debt maturities by guaranteeing interest payments on later years of the maturity, depending on different LIC circumstances, until ten year maturities were achieved without such donor intervention.

21. Ministers urged building in an MDG attainment scenario in preparing debt sustainability analysis that would (a) provide an indication of resources required to achieve the objective, (b) indicate when debt sustainability is a constraint, and (c) suggest ways in which this constraint can be eased.

22. Ministers called for allocation of assistance on the basis of a formula that achieves a better balance between the attainment of MDGs and country performance. Such an approach would look at the constraints on fiscal space, including external and domestic debt servicing, that undermine the attainment of the MDGs.

23. Ministers called for a concerted international effort to reduce volatility in aid flows and make aid more predictable, so as to facilitate monetary management and ease the domestic debt burden of the aid recipient countries. They called for technical assistance to countries to address these concerns.

### **Effective Debt Management**

24. Ministers noted the importance of implementing sound and prudent debt management policies, especially in the wake of fiscal space created by MDRI debt relief which could lead to over borrowing on non-concessional terms. They recognised the need to put in place adequate legal and institutional structures for debt management, and debt recording systems encompassing various debt portfolios, such as public and publicly guaranteed external debt, as well as domestic debt. They urged Commonwealth member countries to fully utilise the facilities available in the Commonwealth capacity building programmes on debt management.

25. Ministers welcomed the establishment of the HIPC Legal Referral Service and its programmes for sensitising legal and finance officials in Commonwealth countries in negotiating and renegotiating loan agreements and finding a way forward in resolving disputes.

### **Public-Private Partnership for Infrastructure**

26. Ministers welcomed the report, following the joint Commonwealth Secretariat-SADC workshop in South Africa, on harnessing existing facilities to promote public-private partnerships for infrastructure investment and service delivery. They commended the workshop's key messages, particularly the need for better co-ordination between existing donor facilities that provide support for infrastructure project preparation in Africa; more resources for early stage infrastructure project preparation; PPP infrastructure facilitators that raise awareness and bring different parties together, thereby reducing co-ordination costs; separation within PPP units of the responsibilities of project sponsor and project appraiser; and increased official development assistance to support PPP projects.

### **Effective Aid Management and Building the Middle Class in Africa**

27. Ministers appreciated the presentation by Nancy Birdsall, President, Center for Global Development, on effective aid management and building the middle class in Africa. They noted the presenter's view that Africa is caught in an institutional trap, signaled and reinforced by the small share of income of its independent middle-income population and that, if external aid is to be helpful for institution-building, then donors, while maintaining their concern for the poor, also need to emphasize minimizing the risks increased aid poses for the fragile middle-income group in Africa. Attention was drawn to the implications of high and unpredictable aid inflows for SMEs and job creation in the private sector. Ministers agreed with the presenter on the need for those countries where aid constitutes a large proportion of government spending to closely monitor the effects of aid (and of planned aid increases) on (a) the labour market, particularly for skilled workers; (b) interest rates and other macroeconomic variables; (c) domestic investor confidence; and (d) incentives for domestic revenue generation.

### **Conclusion and Appreciation**

28. Ministers agreed that their statement should be forwarded to the International Monetary and Finance Committee and the Development Committee Meetings on 14-15 April 2007. They also agreed that the Chair should continue the efforts to promote the action points from the current and previous meetings.

29. Ministers welcomed the continued cooperation with the Organisation Internationale de la Francophonie (OIF) which resulted in the participation in the meeting of a number of francophone Ministers and officials. This had enriched the discussion. They looked forward to interaction in the future between the Commonwealth and Francophone Ministers.

30. Ministers expressed their gratitude to the Center for Global Development for providing the venue for their meeting and for the excellent arrangements.

Washington DC  
12 April 2007