



**COMMONWEALTH HIPC FORUM
MINISTERIAL MEETING
Lilongwe, Malawi, 18-20 February 2002**

MINISTERIAL STATEMENT

1. The ministerial level meeting, organised by the Commonwealth Secretariat in collaboration with the Macroeconomic and Financial Management Institute of East and Southern Africa (MEFMI), of the Commonwealth HIPC Forum was held in Lilongwe, Malawi, on 18-20 February 2002. Of the eleven Commonwealth heavily indebted poor countries (HIPCs), ministers and/or other representatives from Cameroon, the Gambia, Ghana, Kenya, Malawi, Mozambique, Sierra Leone, Tanzania, Uganda and Zambia participated. Ministers/representatives from Australia and Britain as well as from the IMF and the World Bank attended the meeting by special invitation. Ministers from the Commonwealth HIPC Forum issued the following statement.

2. Ministers pointed out that the global economic slowdown, worsened by the tragic events of 11 September, had brought home the stark reality that long-term external debt sustainability of countries in the HIPC process could be seriously jeopardised by external shocks. Although the international financial institutions had provided rapid and flexible mitigating assistance, the existing arrangements do not sufficiently respond to swings in export earnings and other exogenous shocks. There was need to develop financing instruments that provided timely highly concessional assistance and that had the appropriate flexibility in application and repayment terms, to ensure that exogenous changes and shocks in a country's environment did not begin a slide back into unsustainable debt.

3. Ministers were concerned that the long-term macroeconomic assumptions for growth and export earnings, on which the debt sustainability projections were made at the decision point, appeared over-optimistic for many countries. They agreed that it was essential to carry out a thorough reassessment of debt sustainability for all countries reaching completion point, with topping up as necessary, and periodic reviews thereafter to determine whether the projections made were actually materialising. They emphasised the need for adequate concessional financing to support strategies designed to achieve sustained growth and development.

4. Ministers called for improved access of HIPC products to the markets of developed countries, and a reduction of subsidies by the latter to their agricultural sector, to promote faster export growth in HIPCs. Long term debt sustainability also required HIPCs to diversify and encourage private investment in their economies. In this regard they called upon the Commonwealth Secretariat, in collaboration with other partners, to devise effective ways to more vigorously market the policy achievements and successes of Commonwealth HIPCs.

5. Ministers recognised that debt sustainability analysis was incomplete without the consideration of domestic debt. While the HIPC process was designed to deal with the external debt burden, solutions were also needed to deal with the domestic debt burden.

6. Ministers noted that although all creditors had agreed to provide comparable treatment under the HIPC process, HIPCs were facing difficulties in resolving the problem of debt owed to some of the non-Paris Club creditors. They called on all creditors that had not already done so to offer HIPC terms or better to HIPCs.

7. Ministers noted that although 24 countries have reached the decision point under the Enhanced HIPC Initiative, only 4 have reached completion. They welcomed the link between poverty reduction and the HIPC process. They noted, however, that preparation of a comprehensive and a fully participatory Poverty Reduction Strategy Paper (PRSP), which was one of the conditions for reaching the completion point, was a very demanding process for capacity constrained HIPCs. They stressed the need for the preparation of the initial PRSP without undue delay, and they recognised that while quality was important, the PRSP approach was based on the principle of country ownership and was a long term challenge, requiring continuous learning, sustained efforts at capacity building and iterative improvements over time. Ministers called for close collaboration with the Bretton Woods institutions to avoid delaying the PRSP approval by the Boards of the two institutions.

8. Ministers noted that policy slippages were sometimes the result of exogenous shocks which included volatility of donor flows arising often out of non-fulfilment of pledges. There was need for case by case flexibility when examining policy slippages as well as for donors to fulfil their pledges and mechanisms to smooth out volatility of donor flows. Ministers welcomed the streamlining of conditionality by the IMF and called for this streamlining to be applied to all existing programmes.

9. Ministers noted the need for continued flexibility in the treatment of conflict-affected HIPCs, which had suffered severe damage to their institutional and administrative capacity and physical and social infrastructure. For them, the immediate need was for post conflict rehabilitation and reconstruction, supported by substantial grant aid, concessional treatment of arrears and front-loaded debt relief.

10. Ministers were concerned about the problems created for countries by refugees from neighbouring conflict-affected countries, and called for timely international support to deal with this problem.

11. Ministers were of the view that the current conjuncture of events called for the reassessment of the eligibility for relief of those HIPCs, whose debt ratios were deemed potentially sustainable after the application of traditional debt relief mechanisms.

12. Ministers recognised that the resources released through debt relief were insufficient to bridge the gap between financing needs and available resources for current poverty reduction initiatives and to meet the millennium development goals. In this connection, HIPC Forum members strongly endorsed the proposal made by the UK Chancellor Gordon Brown for a new Marshall Plan, including an additional \$50 billion a year international trust fund with a remit of meeting the millennium development goals. Ministers felt that such a fund should place heavy emphasis initially on assisting those HIPCs and other poor countries

which had embarked on designing and implementing poverty reduction strategies. In this regard they called upon the Commonwealth Secretariat, in collaboration with other partners, to undertake a country by country estimate of the resources required by Commonwealth HIPC countries to reach the millennium goals, as well as an assessment of capacity constraints. Ministers also agreed that intra-Commonwealth aid and other forms of co-operation needed to be increased and made more effective to assist Commonwealth HIPC countries in meeting poverty reduction and other millennium goals.

13. Ministers noted that gender issues were not given adequate consideration in designing and implementing poverty reduction strategies and in the formulation of international development targets. They called for the strengthening of gender integration efforts and agreed that this could be best done within the context of a broad gender equality vision at the national level, appropriate policy actions based on available knowledge, and concrete gender related actions in the countries' medium term expenditure frameworks and donor budgets.

14. Ministers agreed that the Secretariat should facilitate the exchange of information and experience on debt management among HIPC countries, including experiences and lessons under the HIPC/PRSP processes and endorsed the proposal for the establishment of a restricted access Commonwealth HIPC website. They emphasised the need for the Commonwealth Secretariat to assist member governments in improving their debt management capacity in collaboration with other partners. Ministers noted the significant improvements in the Commonwealth Secretariat's software, Commonwealth Secretariat Debt Recording and Management System (CS-DRMS 2000+) for recording and managing of countries' debt portfolios, and emphasised the need for Commonwealth HIPC countries to have early access to the upgraded software.

15. Ministers called for the current capacity building initiatives such as those supported by BEAC/BCEAO Pole-Dette, Latin American Centre for Monetary Studies (CEMLA) and MEFMI and West African Institute for Financial and Economic Management (WAIFEM) to be further strengthened and co-ordinated. Ministers undertook to use available domestic capacity in preference to external assistance wherever possible.

16. Ministers agreed that their statement should be forwarded to the Commonwealth Heads of Government when they meet in Australia, on 3-5 March. In this regard they requested HE Dr. Bakili Muluzi, President of the Republic of Malawi to present this statement to the Commonwealth Heads.

17. Ministers expressed their appreciation to the Government and People of Malawi for their warm hospitality and for the excellent arrangements for the meeting.

Lilongwe, Malawi

20 February 2002



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Introductory Remarks by the Commonwealth
Deputy Secretary General, Mr Winston Cox

Vice-President, the Rt Hon Justin Mulewezi, Hon. Finance Minister, Mr. Jumbe, Hon Ministers of Finance from Commonwealth heavily-indebted poor countries, Representatives from other Commonwealth countries, the IMF, the World Bank, MEFMI and WAIFEM, Your Excellencies, Distinguished Guests, Ladies and Gentlemen.

It gives me great pleasure to extend a warm welcome to you all at this Ministerial Meeting of the Commonwealth HIPC Forum. I am sure I reflect the feelings of all of us when I thank our hosts, the Government and people of Malawi for their hospitality, their generosity and the efficiency of the arrangements for our meeting.

The debt problem facing poor countries has been at the heart of Commonwealth concerns since the 1980s when the world was preoccupied with the commercial indebtedness problems of major borrowers. The Commonwealth Secretary-General set up an expert group under the late Lord Lever of Manchester and its report in 1984 on the *Debt Crisis and the World Economy* brought to the fore the problems facing poor countries and suggested solutions for resolution. The Commonwealth's 1988 Lawson and 1990 Trinidad Initiatives, through several stages in the Paris Club of industrialised creditor countries, eventually became the Naples terms in 1994.

In the early 1990s the Commonwealth pointed to the need to address the growing problem of the debt owed to multilateral institutions. The proposals from Commonwealth and various other organisations culminated in the Heavily Indebted Poor Countries (HIPC) Initiative, which was eventually endorsed by the international community. As the inadequacies of the relief provided and the slow pace of implementation of the HIPC framework becoming apparent the Commonwealth, along with others, called for an independent and wide-ranging review of the HIPC Initiative. This led to the Enhanced HIPC Initiative.

Significant progress has been made since the launch of the Enhanced HIPC initiative and 24 countries out of a total of 41 eligible countries have started on the HIPC debt relief process. A total of some \$36 billion of nominal debt service relief has been committed for these countries. However there remain a number of concerns. At the Commonwealth Finance Ministers Meeting in Malta in Year 2000, Ministers agreed to establish a forum comprising mainly of HIPCs themselves to provide regular input into the process of shaping the HIPC initiative. It was proposed that this forum could submit reports, on a regular basis, to the Joint

Implementation Committee of the IMF and World Bank, on the progress in implementing the Initiative, and where necessary, suggest changes based on the experience of forum members.

Ministers also asked the Secretariat to continue regular consultations with HIPCs and creditors and continue its programme of support for maintaining effective debt management systems in individual countries.

It is in the light of the Ministerial mandate, the first meeting of the Commonwealth HIPC Forum was held, at the officials level, in London, in April last year and its conclusions were fed into the IMF/World Bank process. A Ministerial level meeting of the Forum was planned for September last year in the wings of the annual Commonwealth Finance Ministers Meeting in St. Lucia. However, the meeting was cancelled because of the tragic events of September 11. We are delighted to be able to hold the first ministerial level meeting of the HIPC Forum here in Malawi, itself a HIPC.

The current precarious global economic situation makes this meeting particularly timely. As you are all so keenly aware, September 11 came at a time when the world economy was already slowing sharply. The terrorist attacks on the United States have been a major shock to the entire world economy, with an adverse impact on confidence, financial markets, and growth prospects. The slowdown in the world economy has sharply affected export prices of commodities on which many HIPCs are heavily dependent. This meeting will give Ministers an opportunity to deliberate on the implications of the current situation for HIPCs and indeed on the whole HIPC initiative in terms of its framework and funding.

Another concern is that the growth and export projections that are made for measuring long-term debt sustainability are too optimistic. Low growth, limited access to finance and falling commodity prices have affected some HIPCs whose debt levels are deemed potentially sustainable and there may be a need to revisit these cases. Questions still persist whether adequate compensatory financing arrangements exist to mitigate the effects of external and internal shocks that undermine the prospects for achieving debt sustainability.

Although 24 HIPCs have entered the debt relief process, only four countries have so far reached completion and exited from the process. One of the key requirements for reaching completion is the preparation of a comprehensive and fully participatory poverty reduction strategy paper. This is a highly demanding process for HIPCs, with limited. Policy slippages and exogenous developments also delay some countries from reaching completion on target.

Another major outstanding concern of the Enhanced HIPC Initiative is the problem facing conflict-affected countries in joining and benefiting from the initiative. The current framework imposes too heavy a burden on these countries to enter and participate in the process. The primary needs of these countries are conflict resolution and rehabilitation and reconstruction of institutions and infrastructure, supported by clearance of arrears, substantial debt relief and external concessional resources.

There is a need to examine the case of debt relief for other heavily indebted countries such as Nigeria, which are currently deemed ineligible for debt reduction on HIPC terms. We need to consider appropriate terms of debt relief for such countries.

A requirement of the HIPC initiative is that any savings from debt relief should be utilised for poverty reduction. We all recognise, however, that the savings from debt relief

are insufficient for bridging the gap between current financing needs and committed domestic and external resources for poverty reduction initiatives. Moreover many of the poverty reduction initiatives have targets that are at or below the internationally agreed millennium goals.

As you know, the international community has set a number of millennium goals, one of which is to reduce by 2015 the proportion of the people living in absolute poverty by half compared to the 1993 level. It has been estimated by a UN report prepared by a commission headed by Mr. Zedillo, former President of Mexico, that meeting of the millennium goals would cost an additional \$50 billion a year. In this respect, I am sure that the meeting would wish to endorse and strongly support the proposal from Mr Gordon Brown, the British Chancellor of the Exchequer, for a \$50 billion a year international trust fund with a remit of meeting the targets, using contributions from developed countries and multilateral organizations.

The meeting will also have the opportunity to consider the links between poverty reduction and gender equality. There is currently inadequate consideration of gender issues in designing and implementing poverty reduction strategies and in the formulation of international development targets. Yet seventy per cent of the world's absolute poor are women, who suffer inequalities across the whole spectrum of society. Such inequalities are not only inimical to women's human rights, but also harmful to economic development and poverty reduction.

The meeting will also provide an opportunity for Ministers to discuss areas of Commonwealth functional co-operation, areas where the Commonwealth Secretariat can provide practical hands-on help through its debt recording and management software and through other forms of technical assistance and training.

This first ever meeting of the Commonwealth HIPC Ministers would, therefore, provide ample opportunity for Ministers to focus on an agenda, which is of direct relevance to them. We also hope that the participation of representatives from Commonwealth donor countries, some at Ministerial level, the IMF and the World Bank will give these representatives the opportunity to learn about and carry forward, in the relevant national and international forums, the concerns of the Commonwealth HIPC members. Indeed I believe that their participation here at such a high level is a reflection of the commitment to make the enhanced HIPC initiative a success. It also demonstrates to me that donors and the international financial institutions are determined to listen, to learn and to co-operate as partners with developing countries in the global effort to improve human well being.

We are organising this function in collaboration with the Macro Economic and Financial Management Institute for Eastern and Southern Africa (MEFMI) and we are pleased to record our appreciation for this collaboration. We regret that the Executive Director, Dr Maruping cannot be with us and wish him well.

The timing of this meeting Mr Vice-President, will allow your President, H E Mr Bakili Muluzi, to carry the conclusions of these deliberations to Commonwealth Heads of Government scheduled for 3-5 March.

In conclusion, I would like to thank you, Sir for finding time from your busy schedule to open this very important meeting of Commonwealth HIPC Ministers. I am sure I speak for all when I say that we are looking forward to hearing your address, and particularly your concerns about the situation facing Malawi and other sub-Saharan African HIPC countries.