



# COMMONWEALTH

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## NEWS RELEASE

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### Commonwealth Finance Ministers Meeting St Kitts & Nevis, 28-29 September Communiqué 2004

1. Commonwealth Finance Ministers met in St Kitts and Nevis on 28-29 September 2004. The meeting was chaired by the Prime Minister and Minister of Finance of St Kitts and Nevis, Dr the Hon Denzil Douglas.

2. Ministers reviewed the world economic situation; discussed a range of issues that are on the agenda of the annual meetings of the World Bank and International Monetary Fund (IMF) in Washington D.C; and discussed policy issues relating to supporting development in small states, promoting investment in Commonwealth developing countries and securing support from the International Financial Institutions (IFIs) to help low-income and vulnerable countries benefit from trade liberalisation. They agreed to take forward their conclusions to the IMF/World Bank meetings in Washington.

#### World Economic Situation

3. Global economic growth remains strong including in Commonwealth developed countries. But Ministers noted that not all regions had benefited. Despite recent improved performance in some countries, Caribbean economies remain adversely affected by depressed tourism earnings, adjustment to the loss of trade preferences and more recently, the most damaging hurricane season in many years, and short and medium term growth prospects in Sub-Saharan Africa are unlikely to be sufficient for these countries to achieve the Millennium Development Goals (MDGs). They looked forward to the report early next year of the Commission for Africa, which is addressing ways to strengthen development prospects for the continent. Ministers also noted significant risks for the future. The uncertain recovery in the Euro Area, high and fluctuating oil prices, and the fiscal and current account deficits in the US present challenges for the future. Many countries in Africa and among the community of small states, as recent events in the Caribbean have demonstrated, remain exceptionally vulnerable to the impact of unanticipated shocks. For heavily indebted oil-importing developing countries, the combination of rising oil prices and rising interest rates would be particularly burdensome.

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4. Sustaining the global recovery and mitigating and handling these risks remains an important challenge for global economic policy makers. Ministers called for action by:

- industrial countries, to address the fiscal and balance-of-payments imbalances in the US while sustaining growth and to implement the structural reforms needed to sustain stronger growth in Japan and the Euro Area;
- developing countries, to continue to implement the policies needed to promote faster growth and poverty reduction and to improve the environment for domestic and foreign direct investment, supported by increased external resources obtained on appropriate terms and through improved market access for their goods and services;
- all countries, to work together to maintain stability in the international oil market with prices consistent with long term growth; and
- all countries, to make rapid and substantial progress in agreeing and implementing the Doha Development Agenda, in particular on agricultural trade liberalisation, which is so crucial for growth in developing countries, and on special and differential treatment to enable capacity-constrained countries to benefit from multilateral trade liberalisation.

5. The Ministers expressed serious concern and deep sympathy over the devastation caused by the recent hurricanes and committed to provide, where possible, bilateral financial and other assistance and to support efforts in the multilateral arena to mobilise resources to finance reconstruction efforts in the Caribbean region.

### **Achieving the Millennium Development Goals**

6. Ministers noted with concern that a significant number of Commonwealth countries, some by a substantial margin, are likely to fail to achieve the MDGs, including the goal for reducing the proportion of people living in extreme poverty. They called for a renewed sense of urgency in implementing all the elements of the Monterrey Consensus, which is subject to review in 2005, and urged all parties to the Consensus to fulfil their obligations. In particular, they noted the key role that official development assistance (ODA) plays in financing MDG-related investments, and supporting policies and institution building needed for growth and poverty reduction. In this regard they:

- welcomed increased ODA commitments by some countries and urged all developed countries to move quickly to implement commitments to increase aid flows and to make progress towards meeting the 0.7% of Gross National Income (GNI) target;
- called for early international agreement on parallel action in the short-term to augment aid flows, whilst the ODA target is being attained. In addition, Ministers welcomed the World Bank and IMF analysis of the International Finance Facility and looked forward to early international agreement to augment aid flows through this or other mechanisms.

7. They emphasised the need to ensure that in moving towards the ODA target, there is no diversion of aid flows to selected recipients at the expense of low-income and vulnerable economies.

8. Ministers also reviewed implementation, at the country level, of the Poverty Reduction Strategy (PRS) process and global agreements to align aid flows better with country priorities and to harmonise aid procedures and practices, informed by the first of a series of Commonwealth country studies. In particular Ministers:

- noted the importance of integrating country-led poverty reduction strategies fully with national decision making processes, and involving Parliaments in the process;
- called on the IFIs to help strengthen country ownership by acting to remove the appearance that national poverty reduction strategies are approved in Washington, and in this respect welcomed the recent agreement to adjust the nature of the joint Bank/Fund staff assessment of national strategies;
- called on donors to support country strategies by aligning their aid programmes fully behind PRSs, using budget support, wherever feasible, making their support more predictable through firm medium term commitments, and harmonising their reporting and other requirements with country practices; and
- called on developing countries to continue to strengthen public financial management and accountability.

9. Ministers welcomed actions taken by the Secretariat to implement its responsibilities under the 2002 Commonwealth Action Plan on Delivering the Monterrey Consensus. They looked forward to reviewing progress in implementing all aspects of the Action Plan by all parties at their meeting next year by which time they hope there will be substantial progress on all these issues.

### **Supporting Trade Liberalisation**

10. Ministers, noting that developing countries will not succeed in accelerating economic growth without adequate access to markets of industrial countries and of each other, particularly in agriculture, welcomed the role the Commonwealth has played and continues to play in providing political momentum to getting the Doha Development Round negotiations back on track. At the same time they recognised that trade liberalisation could have short and medium term costs for some countries including those dependent on trade preferences, and that countries needed help in securing the long run benefits of liberalisation. In this context, Ministers:

- emphasised the crucial importance of a successful Doha Development Round, which is also an essential component of the Monterrey Consensus;
- welcomed the statement by Professor Stiglitz as an important contribution to the debate;

- recognised the need for appropriate trade policies and transitional financing arrangements to mitigate the significant losses that some preference dependent economies will face from their erosion;
- called for consideration by the IFIs of new ways of providing assistance, including a facility to support private sector-led export diversification, as part of the process of adjustment to further trade liberalisation in the many poor and vulnerable economies that are dependent on trade preferences;
- welcomed the civil society statement and briefing paper and in acknowledging the value of civil society's work in influencing international trade and finance agendas in support of pro-poor development, called on civil society organisations to forge viable and productive partnerships to develop new proposals and strategies towards an effective, just, rules-based multi-lateral trading system; and welcomed the Commonwealth Secretariat's decision to expand substantially the trade capacity building programme, in partnership with the European Union, the ACP Secretariat and the Agence Intergouvernementale de la Francophonie, through an ACP wide programme aimed at building capacity in trade policy formulation, negotiation and implementation.

### **Ensuring Debt Sustainability for Poor Countries**

11. Ministers welcomed and endorsed the continuing work of the Commonwealth Heavily Indebted Poor Countries Ministerial Forum (CHMF) and the report from its meeting on 28<sup>th</sup> September. They also discussed progress in developing a new World Bank/IMF framework for assessing debt sustainability in low income countries.

Ministers:

- welcomed the agreement to extend the sunset clause of the Heavily Indebted Poor Countries (HIPC) initiative by two years;
- called on creditors that are not yet participating to do so, and welcomed the efforts the Commonwealth is making to mobilise support for HIPCs in tackling the difficult issue of creditor litigation;
- asked for further examination of proposals to deepen debt relief to HIPCs and other similar low-income countries, including proposals to extend 100% relief to multilateral debt. They stressed, however, that any extra debt reduction must be additional to and not at the expense of new aid flows. In this context they welcomed the United Kingdom's commitment to finance its share of such debt relief for the World Bank and African Development Bank and looked forward to similar efforts from other development partners;
- broadly endorsed the proposed new Bank/Fund framework for ensuring long term debt sustainability in low-income countries, while noting important issues to be agreed before it can be made operational include the level of debt thresholds (which should not be set too high), the need to allow for the potential

impact of unexpected shocks, the treatment of domestic debt and the need to have a single Bank/Fund assessment; and

- recognised the continuing importance of debt-related technical assistance generally and the Commonwealth Secretariat's efforts in providing advice particularly to HIPC countries on effective debt recording and the sustainable management of external, domestic and private debt. They welcomed also the deployment of regional debt advisers in key partner institutions.

### **Strengthening the Investment Climate in Developing Countries**

12. Ministers, aware of the link between growth and investment, welcomed:

- the work of the World Bank Group and other donors including the Commonwealth Secretariat in helping countries improve their investment climates, and in particular in addressing the cost of doing business and promoting investment in Small and Medium Enterprises (SME);
- the World Bank's renewed emphasis on supporting investment in infrastructure, including the infrastructure needs of businesses; and
- the continuing contribution of the Commonwealth in promoting private investment in developing countries through the Commonwealth Private Investment Initiative (CPII), an outstanding example of North-South and South-South co-operation, which has already raised over \$200 million for private investment.

### **Other World Bank and IMF Issues**

13. Ministers discussed other issues likely to be raised at the forthcoming Bank/Fund meetings. In particular Ministers emphasised:

14. the continuing need to make progress on the more fundamental reforms needed to strengthen developing country 'voice' at the Bank and Fund including by increasing developing country voting power;

- their support for the IMF's strategy of remaining engaged with its low-income country members, and its recognition that in many cases their economic problems are deep seated, and require many years of successful macro-policy implementation to address;
- their support for the forthcoming IMF review of its conditionality guidelines and called for a comparable review of World Bank conditionality with a view to streamlining overall IFI conditionality;
- the need to encourage the IMF to further develop its capacity to support country-led intensive surveillance for those countries desiring enhanced Fund surveillance without the need for them to seek more Fund borrowing. The Fund

should also aim to strengthen dialogue and advice in Article IV consultations to further help member countries;

- the need to consider new ways to provide quick disbursing concessional finance to low-income countries facing exogenous shocks and to consider ways for the IFIs to provide counter-cyclical financing for countries that do not have access to capital markets;
- their support for a generous IDA 14 replenishment, which will be critical for attaining the MDGs. This replenishment should be a substantial increase over previous ones and should promote more effective engagement with eligible members;
- their support for continuing Fund/Bank work on crisis prevention and management; and
- their continuing support for the work of the Bank/Fund, the Commonwealth and the wider global community in helping countries counter money laundering and terrorist financing.

### **Small States**

14. Ministers reviewed the continuing actions being taken by the Commonwealth and its partner institutions (the World Bank, IMF, World Trade Organisation (WTO), European Union (EU), United Nations Conference on Trade and Development (UNCTAD) and Regional Development Banks) in implementing the proposals in the April 2000 report of the Joint Commonwealth/World Bank Task Force on Small States.

- They encouraged the Secretariat to continue to enhance its efforts in supporting the interests of this group of countries, including helping to prepare for and actively participate in the International Meeting in Mauritius next January to review the Barbados Plan of Action on the sustainable development of small island states.
- Ministers welcomed the framework of policies that the Secretariat was seeking to develop to build resilience and competitiveness in small states.
- Recognising that the Commonwealth will often be most effective in advancing the small states agenda by working in collaboration with other international organisations, Ministers also encouraged the Secretariat to strengthen and systematise its partnerships on small states issues with a range of other international organisations, including the IMF and Multilateral Development Banks (MDBs).

15. Noting the increased vulnerability of small states arising from natural disasters and other threats such as HIV/AIDS, and the cost of measures to combat global terrorism, Ministers called on the Commonwealth Secretariat and the World Bank to revisit the 2000

Report with a view to ensuring that its recommendations take account of these new vulnerabilities.

16. Ministers noted progress in discussions between small jurisdictions and Organisation for Economic Co-operation and Development (OECD) countries on the OECD's Harmful Tax Competition Initiative (HTCI) and, in particular, on ways to achieve a level playing field in the area of Transparency and Exchange of Information on Taxation, and welcomed the facilitating role that the Commonwealth has played in this regard. Ministers:

- looked forward to the expeditious achievement of a level playing field;
- encouraged continuing dialogue on the HTCI with all interested parties within and outside the OECD, including the private sector and civil society; and
- called on OECD member countries, bilateral donors, and IFIs to widen and intensify their support and assistance to those developing countries and jurisdictions that are currently engaged in restructuring their international financial services sectors to take full advantage of the benefits of globalisation.

#### **Commonwealth Development Co-operation**

17. Ministers welcomed the contribution being made by the Commonwealth Fund for Technical Co-operation (CFTC) to assist member states to achieve the MDGs. They noted the increasing focus of the development programmes on addressing such areas as trade, investment, debt and public sector development, designed to build institutions and skills necessary to take advantage of the opportunities and address the risks presented by globalisation. They noted that there remained a need to enhance the level of technical co-operation to member states so as to help achieve the MDGs within the established time frames. They recalled the commitment of Heads of Governments at Abuja to enhance the resources of the CFTC and welcomed the increased contributions by a number of member countries. They called on those members that had not yet done so, to increase their support in line with the majority of members who benefit from the CFTC.

18. Ministers noted the progress report on the Commonwealth Private Investment Initiative (CPII) and the fact that the first round of funds were now fully invested and in the divestment phase. They recognised the positive impact that CPII had had in attracting private capital to difficult markets and in the range of investments made. They were keen to see CPII continue and supported the rolling out of another round of funds to follow up those now being repaid to shareholders. They were supportive of the Secretariat's ideas of focusing a second phase of CPII on the SME sector in the geographic areas covered by the first round of the funds. They were pleased to note that a second Kula Fund was in the process of being launched and asked the Secretariat to report back in 2005 on the success of that fund and on more concrete proposals for a series of SME funds.

19. Ministers welcomed the progress made in fostering consensus on the need to enhance private direct investment in countries with 'endowed handicaps' through risk-sharing schemes.

20. Ministers noted that money laundering and financing of terrorism continued to pose serious threats to financial systems and of global community. They noted the concerted measures that many Commonwealth countries are taking to comply with the revised Financial Action Task Force (FATF) recommendations in order to develop regimes that prevent money laundering and the financing of terrorism. They also encouraged the Secretariat to continue supporting the Asia Pacific Group (APG) Secretariat, the Caribbean Financial Action Task Force (CFATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in developing national and regional strategies to combat money laundering and financing of terrorism. They welcomed the support provided to the Economic Community of West African States (ECOWAS) Secretariat in its efforts to set up the West African Anti-Money Laundering Group.

#### **Commonwealth Business Council (CBC)**

21. Ministers commended CBC for its work in implementing practical initiatives for sharing experience at senior government levels on public-private partnerships for the delivery of basic services to the poor and the CBC Global Index to facilitate greater portfolio equity flows to emerging markets on a commercially sustainable basis.

#### **Commonwealth Partnership for Technology Management (CPTM)**

22. Ministers noted with satisfaction the rapid progress made by CPTM in getting the Endowment Fund, announced last year, fully operational with contributions to date amounting to a total of £6.4 million. They encouraged CPTM to undertake more country activities and develop greater synergies with other Commonwealth entities involved in functional co-operation. They noted that the CPTM Smart Partnership approach provides a positive contribution to the solution of development challenges in the Commonwealth.

#### **Appreciation**

23. Ministers thanked the Government and people of St Kitts and Nevis for their generous hospitality and the excellent arrangements for the meeting.

#### **Venue of Next Meeting**

24. Ministers accepted the generous offer of the Government of Barbados to host the next Commonwealth Finance Ministers Meeting in 2005.

St Kitts & Nevis  
29 September 2004