INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 26
September 19–20, 2006

Statement by the Hon. **SARATH LEELANANDA BANDARA AMUNUGAMA,**
Governor of the Fund and the Bank for **SRI LANKA,**
at the Joint Annual Discussion

Statement by the Hon. Sarath Leelananda Bandara Amunugama,
Governor of the Fund and the Bank for Sri Lanka,
at the Joint Annual Discussion

Chairman, Fellow Governors, Ladies and Gentlemen,

It is a privilege to speak to you here in Singapore, at a time when Asian economies are the focus of attention. The global economy has continued to perform strongly and the growth has become more broadbased since we last met in Washington DC. However, we are concerned about continuing high risks and vulnerabilities. The consequences of large global imbalances that loom over us feed instability. The high oil prices have had a severe impact on oil importing countries like my own. Despite the recent reductions, future price directions remain quite uncertain. There are signs of emerging inflation, although major countries and regions have moved swiftly to meet this challenge. International developments clearly demonstrate that if the global economy is to maintain steady growth, a co-operative effort from all players, in particular the major ones, is badly needed.

Mr. Chairman, last week we concluded a highly successful Commonwealth Finance Ministers' meeting in Colombo and I had the privilege of chairing its deliberations. The main theme was "An Agenda for Growth and Livelihood" and there were many related topics, including Fund-Bank issues. There was a clear recognition that good economic policies matter for raising and sustaining growth and improving livelihood. In addition, among the many important recommendations the Ministers made was the need for development partners and multilateral institutions to align support behind national strategies, and to ensure that aid programmes are locally relevant, cost effective and institutionally feasible. I will attach the 2006 communique of the Commonwealth Finance Ministers to my speech as an annex.

Mr Chairman, we in Sri Lanka have always been of the view that organizations like the International Monetary Fund and the World Bank have a significant role to play in sustaining global economic growth and strengthening stability. Hence, we welcome the multilateral consultations that have been initiated recently. We also support the focus on increased surveillance in the Fund's medium term strategy. Such surveillance would help identify weaknesses and reduce the possibility of crises. The efforts of the Bretton Woods Institutions to help countries achieve the Millennium Development Goals is appreciated. In line with one of the Fund's basic purposes of helping countries encountering balance of payments difficulties, we reiterate our call for the creation of a special medium term oil facility to assist countries that have been adversely affected by the sharp increase in oil prices. Further, while welcoming the initiatives to assist low income countries, it is also important to consider the needs of those countries which have successfully moved into the middle income group.

The legitimacy and credibility of the Bretton Woods Institutions need to be improved for them to continue to play an effective role in the world economy. While we fully support and appreciate the increase in quota for China, Korea, Mexico and Turkey, we are reassured by the Managing Director's statement that this is the first step of a more fundamental reform in the governance of the Fund, based on a broadly acceptable change in voice and representation.

Let me now turn to my own country, Sri Lanka. Our economy is displaying great resilience, despite many challenges. A broadbased GDP growth of 7-8 per cent is expected in 2006. We have launched a programme to ensure a steady growth of around 8 per cent, to achieve sustained growth with social justice and equity. Our government has responded appropriately to the sustained sharp rise in oil prices. Oil subsidies, which had been an enormous burden on the budget, have been eliminated. These price adjustments, in the context of growing domestic incomes and investment activity, have led to some upward price pressure. We are committed to strengthening macro economic stability. In this regard, the process of fiscal consolidation is under way. The Central Bank has appropriately tightened monetary policy. We have also strengthened our financial systems to maintain international best practices. Laws to counter money laundering and the financing of terrorist activities have been strengthened and an FIU is now fully operational.

The President of Sri Lanka has reiterated the government's commitment to a peaceful resolution of the long-standing conflict in the country and has called upon the LTTE to renounce violence and enter into negotiations.

Mr Chairman, in conclusion, I hope our deliberations at this year's Annual Meetings will help to underpin the current dynamism and resilience in the world economy.

Commonwealth Finance Ministers Meeting

Cinnamon Grand Hotel, Colombo, Sri Lanka, 12-14 September 2006

Commonwealth Finance Ministers Meeting
Sri Lanka, 12-14 September
Communiqué 2006

1. Commonwealth Finance Ministers met in Colombo, Sri Lanka on 12–14 September 2006. The meeting was inaugurated by. H.E. Mahinda Rajapaksa, President and Minister of Finance and Planning, Sri Lanka and it was chaired on his behalf by the Hon Dr Sarath Amunugama, Minister of Public Administration and Home Affairs.

2. Ministers reviewed the world economic situation and discussed a range of development and other issues including those on the meeting's theme of "an Agenda for Growth and Livelihoods"; special problems affecting small states and their need for support; promoting investment in Commonwealth developing countries; Commonwealth development cooperation; and issues that are on the agenda of the Annual Meetings of the World Bank and International Monetary Fund (IMF) in Singapore.

World Economic Situation

3. Ministers stressed the essential role that trade growth plays in continued global prosperity and the importance of overcoming obstacles to trade. They urged key players in the Doha negotiations to provide the political impetus needed to revive the negotiations and bring them to an ambitious, comprehensive, successful and development-oriented conclusion. Any breakdown in negotiations would have adverse consequences for all countries, especially the poorest and most vulnerable.

4. After five years of strong growth in developing countries the prospects for global growth remain good for the year ahead both for high income countries and for developing countries. Ministers, however, noted some important downside risks to this central prospect. Major imbalances in the global economy have yet to unwind. Expansion in the United States is expected to slow-down while the durability of the recovery in Europe remains uncertain. Rising inflation and interest rates may slow global growth and the flow of private finance to developing countries. Despite positive per capita growth in Sub-Saharan Africa over the past decade, most countries in the region are unlikely to meet the majority of MDGs. More immediately, higher oil prices have imposed substantial income losses and increased budgetary pressures in oil importing developing countries.

5. Ministers noted that avoiding these risks will require actions by individual countries and enhanced international policy coordination. In particular they:

- called for stronger policy efforts by individual countries including tighter fiscal policy in the United States, continued structural reform in Europe, increased domestic demand in Asia and oil-exporting countries, and increased exchange rate flexibility in Asia.

- welcomed action by the IMF to promote multilateral policy discussions among the world's major economies, including the large developing economies, while not compromising the Fund's role as an institution at the service of all its members.

- called on development partners to deliver on pledges to raise assistance to the poorest countries, small and vulnerable states and those affected by trade shocks; to improve aid modalities in line with the Paris Declaration; and, in the short run, to help poor oil importing countries address the serious loss of income and budgetary pressures they face as a result of rising oil prices. They also called for actions to improve access to private finance for low income countries.

- urged recognition of the costs of adjustment in some poor countries, including problems of countries facing erosion of preferences. They also recognised the importance of Aid for Trade to enable developing countries to exploit fully new trade opportunities and urged all donors to deliver on their commitments to increase Aid for Trade independent of progress on the Doha Round. They stressed that this should include support for LDCs, small and vulnerable states and other developing countries hit by large trade shocks. They also called for assistance for accompanying measures to facilitate a rapid lowering of trade barriers and to allow all to benefit from freer trade

An Agenda for Growth and Livelihoods

6. Ministers discussed the special theme: **An Agenda for Growth and Livelihoods.** They focused on what constitutes the best policy agenda for countries to follow as they seek to enhance growth and improve livelihoods of their populations. They welcomed the contribution of Professor Shankar Acharya in his background paper for the discussion and broadly endorsed his conclusions. They agreed that:

- good economic policies matter for raising and sustaining growth, and have played a substantial role in growth successes in the last 15 years. Geography and historical and institutional factors also matter, but not to the exclusion of economic policies. Over the longer term, improvements in institutions and economic governance are likely to be critical to sustained success.

- sustained growth is the most effective route to poverty reduction, and likely to be most pro-poor when it is employment intensive.

- the agenda for growth has to be articulated in specific country contexts and priorities and should differ according to country circumstances.

- the best support that industrial countries can give is through a combination of policies: strengthening the development dimension of the global trading system and reinforcing the capacity of the international financial system to respond to the needs of poor countries; strong growth and sensible energy policies in their own countries; as liberal a policy on immigration of labour as is politically feasible in conformity with members' international commitments and their respective domestic legislation; and implementing undertakings to provide generous and effective programmes of external assistance.

7. Ministers emphasised the importance of education and training in any strategy for growth and livelihoods. In this connection, they recognised the importance of formulating long-term plans on the part of developing countries and the need for donors to respond positively to them, including with long-term predictable finance.

8. Ministers welcomed the valuable contribution of Commonwealth Civil Society to their discussion and stressed the importance of Civil Society involvement in the formulation and implementation of national development strategies. They emphasised that these strategies should be country-owned. They also agreed that effective development requires innovative partnerships between states, Civil Society and the private sector; that sustainable growth and improved livelihoods require resources to be directed to support priority sectors where the poor live and work, such as agriculture and the urban informal sector; and that priority should also be given to investment in essential infrastructure such as roads, electricity, water-supply and sanitation alongside other MDG-related investments.

9. They also welcomed the contribution of the Commonwealth Business Council, and agreed on the need for measures to encourage effective public-private partnerships in the provision of infrastructure and other services; to ensure that banking and financial services are available to an increasing proportion of the population; and to enhance corporate governance in Commonwealth countries.

10. Ministers agreed, in particular, that increasing access to financial services is a priority. They recognised the importance of governments to work in partnership with the private sector in expanding access to financial services. They also called for further work to improve understanding of financial inclusion by developing indicators of progress in increasing access to financial services and to tackle obstacles to such expansion and Ministers look forward to future meetings to review progress and also share lessons.

Debt Relief

11. Ministers noted the conclusions of the 10th HIPC Ministerial Forum (see attached statement). They strongly welcomed agreements reached in the IMF, IDA and the African Development Fund (AfDF) to implement fully the proposals for debt cancellation set out in the Multilateral Debt Reduction Initiative (MDRI) launched at the Gleneagles G8 summit last year. Ministers hoped that this provides, for those countries that are eligible, an escape from the burden of unsustainable debt. For this to happen, they stressed the need for donors to deliver on their undertakings to ensure that payments made to finance this debt reduction are additional to other aid flows, and to attend to outstanding implementation issues on the HIPC Initiative and MDRI. In this connection, Ministers welcomed the recent agreement on the sunset clause.

12. Ministers emphasised the need to ensure that any re-accumulation of debt in countries benefiting from MDRI relief is managed carefully; and to address the issues of “free riding” and official creditor coordination to make sure that countries never again incur excessive debt. They also welcomed progress on the joint IMF/World Bank debt sustainability framework and the launch of the Commonwealth Secretariat’s legal clinic for debt in distress to help countries handle litigation on their commercial debts.

13. Ministers acknowledged the important contribution the Commonwealth HIPC Ministerial Forum (CHMF) has made to progress in this area and the influential role it can continue to play in future. In this context, they welcomed the cooperation between Commonwealth and Organisation Internationale de la Francophonie. Ministers endorsed Ghana as the new rotating Chair of the CHMF for 2007.

14. Ministers took note of the desire of Commonwealth HIPCs to seek a new terminology to categorise the countries concerned, given the negative connotation associated with the current terminology.

15. Ministers called on the international community to give attention to the debt burden of other poor countries excluded from the MDRI and HIPC process, that have continued to service their debts. They noted that small and vulnerable countries are also facing growing debt burdens. In addition, Ministers also recognised that domestic, as well as external debt, is imposing a significant fiscal burden on some poor countries.

Aid and Aid Architecture

16. Ministers noted the mixed progress to date in implementing aid pledges made at the Gleneagles and UN Summits a year ago to increase aid flows, including a doubling of aid to Sub-Saharan Africa by 2010. They also noted the increasing number of countries in Africa and elsewhere that clearly have capacity to absorb significantly increased aid flows effectively. In addition, they stressed the importance of long-term predictable finance and urged countries to develop long term plans to support their goals. They called on all donor countries to renew efforts to move quickly to meet the pledges made last year. They also urged development partners to increase commitments to innovative mechanisms such as the Africa Catalytic Growth Fund to support improved development outcomes in Africa.

17. Ministers recognised the devastating burden that infectious diseases place on developing countries. They welcomed the establishment of the IFF for immunisation and acknowledged the potential of Advance Market Commitments (AMCs) to be a key tool to accelerate the development of vaccines and ensure an affordable supply. They welcomed the substantial progress towards launching an AMC pilot project this year.

18. Ministers reaffirmed the critical importance of parallel moves to improve the modalities of aid delivery, in line with the 2005 Paris Declaration on Aid Effectiveness. It was emphasised that the focus should be on National Ownership, Harmonisation, Alignment, Results and Mutual Accountability. In this context, they called for recipient country leadership to drive the process of harmonisation and alignment at the national level, with donor support for building relevant country capacity as needed; stronger donor cooperation at the country level and greater use by donors of country systems; and the establishment of independent mechanisms to monitor progress on the Paris agenda at the country and global level.

19. Ministers welcomed and endorsed the conclusions reached by Senior Officials on proposals for reforming the international aid architecture. They also commended the cooperation with Organisation Internationale de la Francophonie in preparing the discussion. They noted there are a number of options for further reform of the international aid architecture and, in this context, welcomed the creation of the UN High-Level Panel on System Wide Coherence and looked forward to its recommendations. They encouraged the Commonwealth to continue to play an active role in the evolution of the international aid architecture and asked the Secretariat to establish a working group of senior officials to consider how best the Commonwealth can influence the continuing debate.

Supporting Poverty Reduction Strategy Processes

20. Ministers also noted and endorsed the conclusions drawn from the four Commonwealth studies of IFI and donor support for countries' poverty reduction strategy processes, including:

- the importance of linking medium term strategies firmly to annual budgets, with Finance Ministries playing a key role in ensuring consistency;

- the need to explain national strategies to the general population and to engage Parliaments;

- the advantages of budget support as the most effective and useful form of donor funding, or where that cannot be achieved, the advantages of "sector basket" funding;

- the need for strong government leadership in encouraging development partners and multilateral institutions to align their support behind national strategies and reduce the administrative burden they place on governments and the corresponding need for donors to respond and ensure that their aid programmes are locally relevant, cost effective and institutionally feasible;

- the need to ensure that channelling assistance directly through NGOs does not undermine the authority and capacity of governments; and

- the power of learning from other countries' experiences.

World Bank and IMF Issues

21. Ministers considered a number of other current IMF and World Bank policy issues. In particular they:

- recognised the need to increase the voice and representation of developing and poor countries in the IMF and World Bank, and urged a time-bound conclusion to a process of fundamental reform in a way that would increase the institutions' credibility and legitimacy;

- welcomed and encouraged rapid further progress in the joint efforts of the Bank and Fund to identify opportunities for significant scaling up in assistance and reforms to help countries meet the MDGs;

- recognised the importance of good governance for development and encouraged the Bank and Fund to support moves to strengthen the various dimensions of governance as an aspect of their support for countries' development. Emphasised that the current focus on governance should not obscure the Bank's core focus on poverty elimination. In this context, Ministers stressed the pre-eminent role of states in promoting good governance; the need for the development community to help build countries' own capacity and to find ways to engage with poor countries even where governance is weak; and the mutual responsibilities of industrial countries to ensure responsible behaviour in this context by their citizens and companies;

- welcomed the Bank's current emphasis on infrastructure development.

- looked forward to the conclusions of the current external review of Bank-Fund collaboration and called for continued efforts to strengthen this collaboration and to increase the combined efficiency and effectiveness of the two institutions in their support for low and middle income countries;

- stressed the importance of sustaining the Fund's financial resources so as not to compromise its role, including its role in low-income countries;

- welcomed the creation of the Fund's new Exogenous Shocks Facility and encouraged flexibility in its scope and use to facilitate timely disbursement of concessional finance;

- welcomed the World Bank's proposals to become more responsive to the needs of its middle-income country clients, including MDG related needs; to provide more customised and flexible financial and advisory services such as through blending; and to accelerate moves to use country systems and to find other ways to reduce the costs to member countries of doing business with the Bank; and welcomed the Bank's work on the Clean Energy Investment Framework and urged its rapid implementation, working with other IFIs.

- Urged the parties involved, including the African Development Bank and World Bank, to accelerate progress in implementing the recently established African Consortium for infrastructure development.

Promoting Investment

22. Ministers reviewed the Secretariat's continuing work programme to promote private flows into emerging markets. In this context, they noted the continuing contribution of the Commonwealth Private Investment Initiative (CPII) in the various regions of the Commonwealth. They welcomed the progress that was being made to advance a second phase of CPII which focuses on the SME sector and covers a wider range of developing member countries.

23. Recognising that in countries with "endowed handicaps" access to affordable long term debt finance by SMEs continues to be constrained, thus hampering investment and private sector development, Ministers welcomed efforts by the Secretariat to find innovative

and market-friendly interventions that mobilize official development assistance (ODA) to share investment risks and thus make financial markets work for SMEs.

]

Small States

24. Ministers discussed the outcome of the consultations on the 2005 Review of the Small States Agenda originally set out in the Report of the 2000 World Bank/Commonwealth Secretariat Joint Task Force. They endorsed the conclusions of those consultations, agreeing that:

- the dimensions of vulnerability of small states identified in the 2000 Report persist, but new factors have emerged since then which have increased vulnerability – including the faster than anticipated loss of trade preferences, a rapidly growing debt burden in many small states, increased environmental risks, rising concerns with youth unemployment and crime, and the impact of the HIV/AIDS pandemic;

- in tackling these challenges small states will need to take action to stabilise and diversify their economies; and the international community will need to take stronger and more effective action to help small states address their special problems, including the adjustment costs associated with the loss of trade preferences;

- the "outward-oriented development strategies" highlighted in the review are the right approach, but specific policy and institutional prescriptions need to be tailored to individual country circumstances;

- a road map or action plan should be developed to implement the vision articulated in the Review, with the work programs of the World Bank, the Commonwealth Secretariat and other development partners related to this plan.

25. Ministers, in addition, emphasised the fact that small states are susceptible to disasters and expressed support for the effort undertaken by the World Bank to develop a Catastrophe Risk Insurance Facility in the Caribbean.

26. Ministers welcomed and supported the generous proposal of the Government of Malta to host a 'Small States Network for Economic Development (SSNED). They looked forward to the proposal receiving the endorsement of the World Bank's Small States Forum. In this regard, they noted that the network should complement and reinforce ongoing work on small states.

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

27. Ministers discussed the impact of international rules on AML/CFT and taxation on small Commonwealth International Financial Centres. They recognised the essential role such rules play in all financial centres in combating financial abuse in all forms. They also recognised the costs of compliance with relevant international standards and rules which can be, particularly heavy for some small developing financial centres. They called for a more inclusive process in setting these standards, and the need to explore further the resulting issues many small jurisdictions face.

28. Ministers expressed their appreciation for the valuable role that the Commonwealth

Fund for Technical Co-operation (CFTC) was playing in assisting member countries, especially small states and least developed countries, with their development efforts. They recalled that Heads of Government at their meeting, in Malta, in November 2005 had endorsed the call made by Finance Ministers for all members to increase their contributions to the CFTC by 6 per cent per annum in real terms for each of the next five years with effect from 2006/07. They noted that a number had already increased their pledges to the CFTC by 6 per cent in real terms for the current year and they urged others to do so, in order to enable the CFTC to enhance its delivery of assistance to member countries. Ministers further reiterated their call for continued attention to strategic planning, results-based budgeting, monitoring, evaluation and reporting. They also welcomed the continued efforts by individual member countries in extending technical assistance to other member countries within and outside the framework of the CFTC.

Commonwealth Business Council (CBC)

29. Ministers appreciated CBC's role as a bridge between business and government; between developed and emerging markets; and between large and small businesses. The CBC also seeks to expand business and investment by strengthening private sector linkages between Commonwealth countries. They noted that the CBC brings the voice of the private sector to contribute ideas and recommendations to improve public policy and create a good investment climate by fostering a platform for private/public sector dialogue.

Appreciation

30. Ministers thanked the Government and people of Sri Lanka for their generous hospitality and the excellent arrangements for the meeting.

Venue of Next Meeting

31. To be announced.

Colombo, Sri Lanka
14 September 2006

Commonwealth
HIPC Ministerial Forum

Cinnamon Grand Hotel, Colombo, Sri Lanka, 12 September 2006

CHAIRPERSON'S STATEMENT

The Commonwealth HIPC Ministerial Forum held its tenth meeting on 12 September 2006 in Colombo, Sri Lanka, prior to the September 2006 Commonwealth Finance Ministers Meeting. Finance Ministers from Gambia, Cameroon, Ghana, Malawi, Mozambique, Sierra Leone, United Republic of Tanzania, Uganda and Zambia attended. In addition, representatives from Australia, Britain, Canada and New Zealand attended the meeting by special invitation. The meeting followed a substantive ninth meeting of the Forum held in Livingstone, Zambia on 10-12 April 2006.

2. Ministers reviewed developments and the progress made on their recommendations since the Livingstone Meeting. They noted that the Livingstone Ministerial Statement had been forwarded by the Chair to all Commonwealth Finance Ministers, the joint IMF/World Bank Development Committee, the IMF's International Monetary and Finance Committee, the African Development Bank and the aid departments/agencies of Australia, Britain, Canada and New Zealand.

Implementation of the HIPC Initiative

3. Ministers were pleased that Cameroon and Malawi had become the 19th and 20th HIPCs to reach the completion point and hoped that it would be joined soon by Sao Tome and Principe and Sierra Leone. They also hoped that, following a satisfactory macroeconomic programme and PRSP implementation, all other decision point countries, including the Gambia, would reach their completion points as soon as possible.

4. Ministers noted the final list of eleven ring-fenced, potentially eligible, HIPCs. But they were concerned that five of them, mostly conflict affected and protracted arrears cases, had not had any IMF programme since October 1996 and would have great difficulties in beginning an IMF programme before the end of the sunset clause in December 2006. They reiterated the need for the abolition of the sunset clause. They further urged increased flexibility in establishing a track record of performance and formulating a poverty reduction strategy for all the ring fenced countries to reach the decision point.

5. Ministers remained very concerned about non-participation or lack of full participation in the Initiative by the vast majority of non-Paris Club creditors and reiterated the need for collective diplomatic initiatives from the Bretton Woods Institutions, key donors and HIPCs themselves in addressing this problem. They were also acutely concerned about creditor litigation, but were pleased that Commonwealth Secretariat has now established a clinic that would assist countries obtain rapid reaction legal assistance.

Multilateral Debt Relief Initiative (MDRI)

6. Ministers welcomed the implementation of the MDRI relief by both the IMF and IDA, noting that relief had now been approved for all 20 Completion Point HIPCs (including Mauritania which was initially excluded).

7. Ministers reiterated their uneasiness about the IMF's apparently unintended non-uniform treatment between pre-completion point HIPCs with a per capita income of US$380 and below vis-à-vis their non-HIPC counterparts, Cambodia and Tajikistan, in the use of the IMF's own SDA resources that strictly require uniformity of treatment in their utilization. They restated their recommendation that those HIPCs with per capita income of $380 and below be put on the same footing as the two non-HIPCs which were given fast track MDRI relief after a one-time conditionality check.

8. Restating their disquiet with IDA shifting the cut off date of eligible debts from end-2004 to end-2003 and choosing the implementation date of July 2006 which had resulted in a significant loss of debt relief for HIPCs, Ministers underlined the importance of consistency between institutions and called on the IDA to re-consider its stand and on donors to provide adequate funding to IDA to do so. They also reiterated their call for adequate donor funding to fully compensate IDA for its share of MDRI on an ongoing basis to protect IDA's financial standing and ability to assist low-income countries (LICs). They re-emphasised their concern about using the existing performance-based formula for allocating additional contributions which donors have pledged to compensate IDA for MDRI and recommended that the need to achieve Millennium Development Goals (MDGs) (highlighted in the G8 proposal) be weighted equally with country performance ratings in the formula for allocating these additional contributions.

9. Ministers noted the delay in MDRI implementation by the AfDF and urged donors to speedily provide adequate resources for it to meet its effectiveness thresholds. They also urged the Inter-American Development Bank to promptly complete its study with a view to early participation in the MDRI.

10. Noting that pre-completion point HIPCs could have fully or partially repaid debts that are eligible for MDRI relief before they reach the completion point, Ministers stressed exploration of all options highlighted in their Livingstone Statement. These include delivery of MDRI to take retroactive effect from a particular common date with the refund of repayments made on eligible debts after that date, streamlining of IMF conditionality with a view to speeding up the process of reaching the completion point, and separation of eligibility for MDRI from prior attainment of the completion point of the HIPC Initiative by writing off immediately by the Fund, IDA and AfDF of their own portions of the remaining slice that would have been left after deemed or counterfactual relief under the HIPC Initiative.

11. Ministers reiterated that, for reasons of equity, the scope of the MDRI be widened to include all IDA-only countries (including those which do not qualify for HIPC relief because their indebtedness ratios are below the HIPC thresholds).They again stressed the need for comprehensive solutions to the debt problems of countries other than IDA only, especially highly indebted small states, which face special challenges.

Exogenous Shocks Facility (ESF)

12. Ministers again welcomed the establishment of the concessional ESF in the IMF, but reiterated the concerns about its shortcomings and the need firstly for its close monitoring particularly to ensure that its conditionality and limited access do not stifle much needed assistance and compel countries to borrow at terms which may pose a danger to the future debt sustainability. They also called for the IMF to consult beneficiary countries on the scope, design and implementation of the ESF to ensure that it meets their needs. In addition they reiterated the need for strengthened mechanisms in the IMF for catalysing shock mitigating assistance from other donors as well as the need for parallel exogenous shock facilities in the IDA and the AfDF.

IMF/World Bank Debt Sustainability Framework (DSF)

13. Ministers noted the increasing number of joint Fund/Bank debt sustainability analyses (DSAs) being carried out, mostly with explicit debt distress ratings and hoped that it would be possible to undertake such DSAs for all LICs, with the latter's active involvement. Ministers also noted that IDA, which was using debt distress risk based on "traffic light" signals as a sole criterion for IDA grants under IDA-14, is to further examine introducing more calibrated risk assessment as part of the IDA-14 review at end-2006. Moreover, they noted that the AfDF is also using debt sustainability assessments for grant allocation and urged all regional development banks to do so. Noting the limited use of DSAs by bilateral creditors, Ministers agreed on the need for easier access to stand alone DSAs with a view to facilitating greater donor co-ordination to ensure debt sustainability in all LICs.

14. Ministers recognised that sharply lower debt burdens and improved sovereign credit risk created potential for new borrowing on non-concessional terms and especially for some lenders to over-lend and engage in free-rider behaviour, secure in the knowledge that MDRI relief and prospect of future IDA grants would cover future debt servicing. They reiterated the need, therefore, for prudent borrowing policies and debt management strategies by all LICs.

15. Ministers reiterated their concern about the domestic debt burden and repeated their call on the Commonwealth to play a leading role in the advocacy for comprehensive approach to address both domestic and foreign debt within the context of the DSF. In this respect, they were heartened by the inclusion of public domestic debt in a number of DSAs and the call by the IMF Executive Board to recognise such debt in DSAs, where it accounts for a significant proportion of a county's debt, and to flag cases where debt distress classification would be different on the basis of external debt alone. They looked forward to further work in this area. They also called on the Commonwealth Secretariat to explore new and innovative ideas for solving domestic debt problems of the affected countries so as to create adequate fiscal space for attainment of the MDGs.

16. Ministers viewed with alarm the suspension of Doha Round of Trade negotiations and reiterated the need for the early delivery of its developmental dimension, as this could lead to substantial expansion of exports for developing countries as a whole and hence their debt carrying capacity. Recognising particularly the uncertainties faced by many HIPCs/LICs suffering preference erosion which could impact on their debt sustainability, Ministers underscored the importance of continued assistance to these countries over a long period of time to manage the transition.

Improving the Quality of Debt Data in HIPCs

17. Ministers recalled their discussion in Livingstone on constraints to improving the quality of debt data and debt management. Noting that problems were largely country-specific, they recommitted themselves to address them at the level of their individual countries, with the assistance of the Commonwealth Secretariat and other relevant bodies. They also called for exploration of possibilities of securing adequate resources dedicated to support capacity building programmes on improving the quality of data and debt management, in particular through future replenishments of IDA and AfDF resources.

Way Forward on Future CHMF Meetings

18. Ministers noted their discussion in Livingstone on the rationale for continuing their meetings and their agreement that there still remained significant outstanding issues in the implementation of the HIPC Initiative, MDRI, the ESF and the DSF, which CHMF needs to assess critically and monitor on an ongoing basis. They also recalled their agreement that the theme of Ensuring Debt Sustainability and Achieving the MDGs, which had guided all their meetings since Lilongwe, continued to remain appropriate, but that in the future, achievement of MDGs should be seen as the prime objective, with debt sustainability taken as an important binding constraint. They also reiterated that the focus of influencing key IMF/World Bank decision-making bodies remained appropriate, while seeking wider support from all Commonwealth Finance Ministers.

19. Ministers noted that with Bangladesh, Sri Lanka and Tonga, either not qualifying or declining HIPC status, the current membership of CHMF would remain. For reasons elaborated in Livingstone, they welcomed continued participation at their substantive meetings of representatives of four Commonwealth donors, IMF, World Bank and African Development Bank; the civil society; parliamentarians; and capacity building institutions such as MEFMI and WAIFEM. They also mandated the Chairperson to explore the feasibility of expanding the Forum to include all Francophone HIPCs.

20. Ministers recalled their discussion in Livingstone on the options with respect to timing of future meetings. Beyond 2006, they agreed to continue with the current practice of meeting twice, with a substantive one day meeting in Washington just prior to the Spring Bank/Fund meetings and another meeting in the margins of the Commonwealth Finance Ministers Meeting as at present.

Conclusion and Appreciation

21. Ministers expressed their appreciation to the government and people of Sri Lanka for their warm hospitality and for the excellent arrangements for the Meeting.

22. Ministers agreed that at the next meeting the rotating Chair would pass to Ghana.

23. Ministers agreed that the Chairperson should present this Statement to the Commonwealth Finance Ministers' Meeting on 13 September.

Colombo, Sri Lanka
12 September 2006