

## Promoting Prosperity: After the Edinburgh Declaration



At Ottawa (*from left*) Chancellor of the Exchequer Gordon Brown, Barbados Prime Minister and Finance Minister Owen Arthur, the Secretary-General and Canadian Finance Minister Paul Martin meet at the Commonwealth Finance Ministers' Meeting following the CHOGM 1997 statement on promoting prosperity

In their 1997 Edinburgh Economic Declaration, Heads of Government adopted a programme of action to promote prosperity throughout the Commonwealth by enhancing trade, investment, development and the environment. They also emphasised the need for globalisation to be carefully managed in order to minimise its inherent risks. These risks were exposed by the worsening of the financial

crisis in East Asia in 1997-98 and when it spread to other parts of the world.

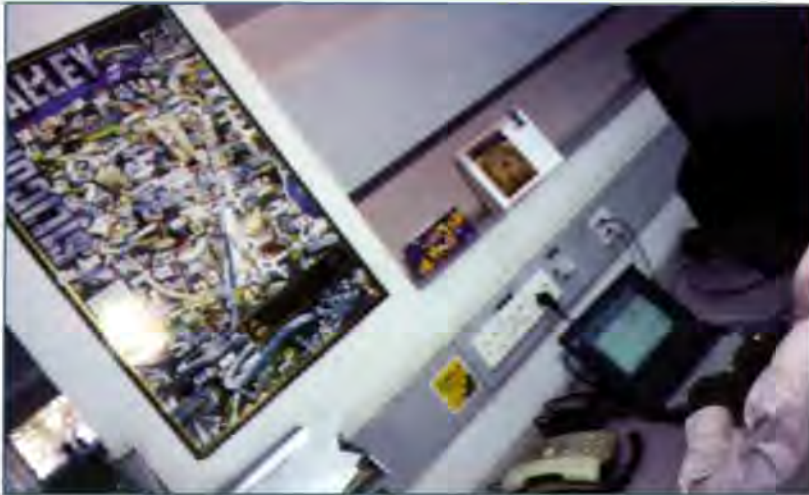
### Crisis Prevention and Management

When Commonwealth Finance Ministers met in 1998 in Ottawa, Canada, the world economy was in the throes of possibly its worst crisis since the Great Depression of the 1930s. In their Ottawa Statement on the Global Economic Crisis, the Ministers called upon the international community to respond swiftly to preserve the stability of the international economic and financial system, and protect the hard-won gains of economic liberalisation in the developing world.

They made several specific proposals for crisis prevention and management. In particular, they urged the establishment of international arrangements, including peer reviews, to achieve improved supervision and regulation of financial systems and steps to identify and fill any regulatory gaps; an orderly and cautious approach to capital account liberalisation; the establishment and strengthening of regional arrangements and mechanisms to serve as a form of constructive contingent arrangement; and reform of the international monetary and financial system and development of a new international financial architecture.

The Ministers called for the urgent consideration for a global meeting, involving representation from





international regulatory frameworks.

The Commonwealth will continue to exert its collective influence on discussions on fundamental reform of the international monetary and financial system and the governance of international financial institutions, which have been largely confined to forums such as the G7 group of developed countries.

Fundamental reforms in the international financial architecture was the special theme of the Commonwealth Finance Ministers Meeting in September 1999.

### Capital Flows and Market Volatility

At their 1998 meeting in Ottawa, Finance Ministers also endorsed a code of good practice for member countries for attracting private capital flows and coping with their volatility.

Key policies and measures proposed in the code are:

- ❖ the adoption of sound and credible macroeconomic policies;
- ❖ the promotion of a stable and efficient business environment through sound financial regulations, a competition policy that discourages collusion and predatory pricing, an institutional framework which facilitates transfer and dispersion of technology, and modernisation of company law;
- ❖ the establishment of robust financial and banking systems through the creation of an institutional and financial infrastructure necessary for a sound credit culture and establishing well-managed regulatory and supervisory arrangements;
- ❖ the promotion of open trade and investment policies and regional integration; and



Capital investment is wanted in the industries of developing countries. Mr Chris Liebenberg (above) headed an Expert Group which examined how these countries were affected by market volatility.

industrial, emerging and developing countries, including vulnerable small states, to give the necessary high-level political impetus for the agreement of reforms of the global monetary and financial system by the year 2000. These proposals were promoted by some of the Ministers at the 1998 annual meetings of the International Monetary Fund (IMF) and the World Bank.

The Ministers based their discussions on the Report by a Commonwealth Expert Group, *Protecting Countries Against the Destabilising Effects of Capital Flows*. They had asked in 1997 for such a study on the lessons to be learned from the East Asian crisis and on how countries could be protected from the destabilising effects of market volatility, including those resulting from speculative activities.

The Expert Group, headed by Mr Chris Liebenberg, former Finance Minister of South Africa, concluded that a comprehensive strategy for dealing with financial crises needed to be directed at four levels: national action to reduce the likelihood of future crises; regional action to limit damage in the immediate neighbourhood; international action to prevent and/or manage future crises; and strengthened



The Commonwealth investment funds help attract capital to economic activities in developing countries

- ❖ targeted strategies for investment promotion and marketing.

The code recommends various options for handling sudden surges of capital inflows and outflows and emphasises that, in addition to the implementation of appropriate policies at the national level, the international community should facilitate private capital flows and put in place the multilateral infrastructure to help countries cope with

the potential or actual volatility of private flows, including their contagion effects.

### Boosting Private Investment

The Commonwealth has continued to help to increase private investment in developing member countries primarily through the Commonwealth Private Investment Initiative (CPII) which was launched in 1995. The CPII is designed to mobilise long-term capital flows to a much larger group of developing countries than has been covered under traditional approaches which have tended to encourage short-term speculative investments primarily in blue-chip companies.

The implementation of the CPII by the Secretariat and the Commonwealth Development Corporation (CDC) has proceeded according to plan with four regional funds established by March 1999. These have raised a total of over US\$200 million for

### Mauritius Mandate Framework

When they met in Mauritius in September 1997, Commonwealth Finance Ministers endorsed proposals, thereafter called the Mauritius Mandate, by the British Chancellor of the Exchequer. The Mandate urged creditor countries and multilateral institutions to speed up debt relief for eligible countries under the HIPC Initiative by the year 2000, and debtor countries to adopt and persevere with sound economic policies needed to make sustainable economic development possible. The Mandate proposed specific targets for making real progress on debt relief:

- ❖ Every eligible poor country should, at least, have embarked on the process of securing a sustainable exit from its debt problems by the year 2000.

- ❖ By the year 2000, there should be firm decisions on the amounts and terms of debt relief for at least three-quarters of these countries.

Simultaneously, the UK announced a five-point plan for its debt relief programme under the Mandate:

- ❖ a contribution of US\$10.5 million towards reducing Uganda's debt to the African Development Bank;
- ❖ cancellation of the remaining debt due to the UK from lower income Commonwealth countries;
- ❖ financing, through the UK's aid programme, of technical assistance to assist debt management for poor countries, especially in the Commonwealth;
- ❖ implementation of the UK's pledge to the IMF without conditions; and
- ❖ the UK would ensure that export credits for poor heavily-indebted

countries would only support productive expenditure. The UK would also seek a firm international agreement that all officially supported credits for poor countries are focused in this way.



Sound economic policies are needed to make sustainable development possible

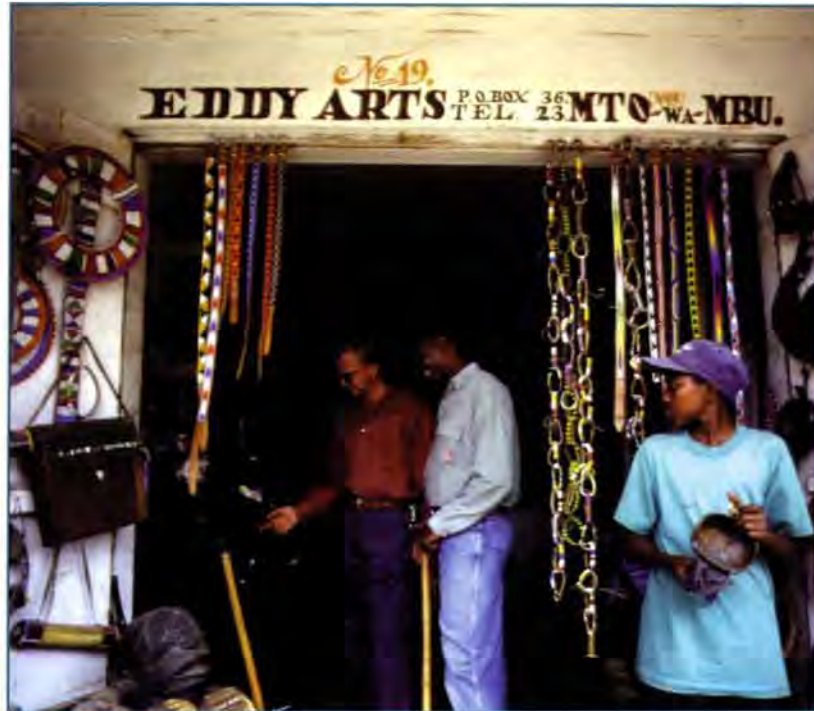
investment in commercial projects.

The first fund in the series, the Commonwealth Africa Investment Fund (COMAFIN), was launched in 1996. With total commitments of US\$63.5 million, it had invested \$20 million by the first quarter of 1999 in several projects, including agribusiness in Ghana and Zambia, aquaculture in Zimbabwe, commercial property and shopping centre developments in Kenya, South Africa and Zambia, telecommunications and tourism in Tanzania, and private sector infrastructure in Kenya.

The Kula Fund for the South Pacific was established in August 1997, with commitments of \$16.9 million by the Fiji National Provident Fund, the CDC, the Asian Development Bank and other development finance institutions active in the region. Its first three investments comprise a coconut palmwood furniture business, a fisheries company and a regional retailing network.

The third fund, the South Asia Regional Fund, has total commitments of \$108.3 million, and is able to operate in all the member countries of the South Asian Association for Regional Co-operation (SAARC). Its investors include the CDC and 15 other Commonwealth investment institutions from Bangladesh, Brunei Darussalam, India, Malaysia, Mauritius, Pakistan, Singapore and Sri Lanka. About \$20 million has been invested in projects in Bangladesh, India and Sri Lanka in cellular telecommunication, cement manufacturing plants, information technology, manufacturing, tea production and tourism.

The fourth fund, the Tiona Fund for the Commonwealth



Caribbean region, was established in March 1999 with \$20.5 million. In addition to investments by the CDC, the Inter-American Development Bank, the Caribbean Development Bank and the European Investment Bank, the private sector in the Caribbean has contributed 12 per cent of the fund's capital base.

The tourism industry (*above*) and the communication and information technology sectors (*below*) attracted investment funds





At the joint Commonwealth Secretariat-World Bank consultation on debt relief in March 1999, Mr Masood Ahmed (*left*), the Bank's Vice-President, and Mr Axel van Trotsenburg, HIPC consultant

The Secretariat and CDC are finalising plans for launching successor funds for Africa and the Pacific islands in 2000 and to explore new avenues for extending the CPII.

### Debt Relief for Poor Countries

There have been significant changes in the debt relief initia-

tive for heavily indebted poor countries (HIPC) since it was launched in September 1996 with active participation from the Commonwealth.

In October 1997, Heads of Government endorsed the Mauritius Mandate agreed by Finance Ministers a month earlier. These proposals are aimed at enabling HIPCs to embark, by the year 2000, on securing a sustainable exit from their debt burdens under the HIPC Initiative launched by the World Bank and IMF in 1996. In 1998, Finance Ministers called on the international financial institutions to accelerate the implementation of the Initiative to meet the Mauritius Mandate target and urged a comprehensive review in order to ensure, specifically, that 22 countries reached their decision points for eligibility for debt relief by the end of 1999.

The Boards of the World Bank and IMF subsequently agreed to undertake a review of the HIPC Initiative, and in March and

### The Commonwealth Business Council

The 1997 Edinburgh Economic Declaration highlighted the reality that the modern Commonwealth is a truly global economic and business association – one which has a vital function in the new global market. Heads of Government approved, in particular, the establishment of the Commonwealth Business Council to encourage greater private sector involvement in the promotion of trade and investment.

The first Commonwealth Business Forum was held on 22-23 October 1997 in London, days before the Edinburgh summit. It was timed so that views of the Commonwealth business community could be taken into account when Heads of Government discussed the summit

theme, 'Trade, Investment and Development – The Road to Commonwealth Prosperity'.

The Forum, which brought together Heads of Government, senior ministers and chairpersons and chief executives from leading companies, has now been established as an annual event which takes place on the eve of CHOGM and in alternate years in conjunction with the Commonwealth Finance Ministers Meeting. It provides an opportunity for high-level private sector recommendations to be communicated directly to Heads of Government and Finance Ministers. The theme of the September 1999 Forum in Johannesburg, South Africa, is 'Making Globalisation Work: Economic Advance with Social Development'.

In addition to the Forum there has



At the CBC's forum in New Delhi, CBC chairperson Lord Cairns (*left*) and Mr Yashwant Sinha, India's Minister of Finance

August 1999, the Secretariat convened two consultative meetings of governments and interest groups who have strong concerns about the HIPC process. These meetings made useful proposals for the refinement of the HIPC Initiative framework and the linkage between debt relief, aid and poverty reduction.

The Secretary-General discussed these proposals with the President of the World Bank and the Managing Director of the IMF in April 1999, and also brought them to the attention of the Heads of State and Government of the G8 before their summit meeting in Cologne, Germany, in June 1999.

Based on these consultations, a Commonwealth contribution to the HIPC review has been prepared by the Secretariat for discussion by Finance Ministers in September 1999. The Commonwealth has successfully argued for: extending the current HIPC Initiative so as to benefit a broader group of debtor countries



The Secretary-General discusses HIPC proposals with Mr James Wolfensohn, President of the World Bank

on more generous terms and in a shorter time-frame; and agreement on gold sales by the IMF to release additional resources for debt relief.

The Commonwealth has been pressing for:

- ❖ strengthening the HIPC framework by linking it more closely with growth and poverty reduction objectives;

been rapid progress in other areas:

- ❖ under the leadership of Lord Cairns and Cyril Ramaphosa, the CBC has been established as a membership organisation with a management board of 12 leading business executives from all regions of the Commonwealth and more than 120 private sector members from 21 countries;
- ❖ recommendations have been put forward by the CBC to Heads of Government on developing a Commonwealth consensus in the World Trade Organisation and to Finance Ministers on reshaping the international financial architecture and liberalisation of financial services;

- ❖ the second Business Forum was held in Ottawa to coincide with the Commonwealth Finance Ministers Meeting in 1998 and a regional trade and investment event for Asia took place in New Delhi in February 1999;
- ❖ two Commonwealth meetings for bankers and financial services companies were held in London in 1998 and 1999;
- ❖ a public-private symposium on trade facilitation and customs modernisation was to be organised in London in 1999;
- ❖ a series of Trade and Investment Almanacs have been published. These outline opportunities and contact points in each

Commonwealth country. The CBC is also developing investment links to facilitate contacts between investors and potential partners;

- ❖ the CBC has published surveys of private sector views on barriers to investment and creating a good environment for business and investment;
- ❖ the Commonwealth Association for Corporate Governance, formed under the aegis of the CBC, has published a set of Principles for Good Corporate Governance in the Commonwealth and has helped to set up institutions for corporate governance in a number of member countries.

- ❖ giving domestic debt and fiscal sustainability more prominence in eligibility criteria, and shortening the six-year performance period to no more than three years;
- ❖ reviewing the IMF's Enhanced Structural Adjustment Facility with a view to giving its programmes a stronger poverty reduction focus;
- ❖ front-loading debt relief, backed by appropriate conditionalities that ensure it is directed to growth and poverty reduction objectives; and
- ❖ agreeing a complete and immediate write-off of external debt for countries in desperate situations.

### International Trade

Assistance to members of the African, Caribbean and Pacific (ACP) Group of States in their negotiations with the European Union (EU) on successor arrangements to the Lomé IV Convention has been a major Secretariat activity in the area of



trade policy. Studies have been prepared on two core areas of the negotiations – alternative trade arrangements and private sector

Assistance is extended to developing member countries in negotiations with the World Trade Organisation

### Sustainable Livelihoods for the Rural Poor

The Secretariat has been among the many agencies which have questioned established rural development strategies and adopted what is referred to as a 'livelihood approach'. This requires a reorientation of development efforts to work with people and communities, supporting them in building upon their own strengths and allowing rural people to realise their potential.

The Secretariat has used this approach in projects which encourage farmers, livestock owners, and fishing communities to increase their levels of income. At the grassroots level, for example, the publication of technical material for beekeepers in East Africa was a response to a steady demand for such information to be made

available in an easily accessible manner. This type of low key activity enables rural communities to earn much needed cash.

At another level, Secretariat consultants have assisted the dairy industry of Solomon Islands to identify new demand for fresh, locally produced, milk. Seafood processors in Tonga have been trained, thus enabling small business enterprises to enter the export market without the need for expensive processing equipment.

Another major concern is ensuring that the use of renewable natural resources is sustainable. Two books, *The Uganda Timber Users Handbook* (1997) and *Nature Conservation Source Book for Forestry Professionals* (1998), were published to help Uganda's Forestry Department train forest guards to be more aware of the needs

of the increasing number of visitors interested in nature and conservation. Encouraging eco-tourism also brings much needed income to rural communities.

At the macro level, agricultural projects also aim to encourage the emerging commercial and entrepreneurial spirit in rural communities, by helping governments in policy-making. In Uganda, consultants have assisted the Government in formulating a strategy for the development of industries which process food crops; and in Southern Africa, the Commonwealth has been instrumental in paving the way for a large European Union intervention in support of improved animal health.

A feature of these projects is the key leverage role played by the Commonwealth in assisting



Approaches to successor arrangements to the Lomé IV Convention are discussed with members of the African, Caribbean and Pacific Group of States

development – and were discussed with ACP delegations in Brussels, Belgium, in November 1998 at a workshop organised jointly with the ACP Secretariat. They were revised and distributed to Commonwealth negotiators in January 1999.

As a contribution to regional capacity-building on post-Lomé IV arrangements, a workshop for senior officials from Pacific island countries was organised jointly

with the South Pacific Forum Secretariat in Suva, Fiji Islands, in March 1999, in order to examine the regional implications of the EU's proposed free trade agreement. This and several other projects have been implemented with funding from a new Trade and Investment Access Facility (TIAF), established at the request of Heads of Government in 1997 (see Chapter 8).

The Commonwealth Secretariat also assists the association's developing member countries in participating in negotiations at the World Trade Organisation (WTO). It has organised workshops for legal officials on the implementation of WTO agreements, based a trade adviser in Geneva to give on-the-spot assistance to delegations to the WTO, provided an adviser on multilateral trade issues for Pacific island countries, prepared business guides to the Uruguay Round agreements and to the General Agreement on Trade in Services, analysed specific issues



The 'livelihood approach' enables rural people to build upon their own strengths

governments to involve larger donors and international funding agencies in supporting sound projects which have been carefully framed with the help of governments and the communities involved.

Commonwealth concern over the levels of poverty has been expressed in a Commonwealth Poverty Initiative, endorsed by Heads of Government in 1997. Since then, the Secretariat has considered how best the Commonwealth could contribute to poverty efforts, given its resources.

One ingredient which seems vital to those striving to break out of the poverty trap is the availability of small scale loans. Some work has therefore centred on improving the performance of micro-credit schemes. Where the Secretariat has been asked for assistance in defining poverty assistance programmes, areas such as micro-finance have been identified for

(such as the potential for the export of business services from developing countries), and organised a workshop on the use of pre-shipment inspection services.

Support is also provided at regional levels. The Secretariat is assisting trade liberalisation in the Southern African Development Community (SADC). It has prepared reports on an industrial strategy for the region and on policies needed at national level to complement trade liberalisation. These were discussed at a workshop for participants in the SADC Trade Negotiating Forum in Harare, Zimbabwe, in January 1999.

Work is also being undertaken on new issues such as electronic commerce, which is presenting developing countries with

valuable economic opportunities as well as major policy challenges. The Secretariat prepared a report for Commonwealth Law Ministers in 1999 outlining economic as well as legal implications of electronic commerce for developing countries. This will be used for building members' capacity to address in the WTO the issue of global rules for electronic commerce.

### Elimination of Corruption

A Commonwealth Expert Group has been studying issues related to the promotion of good governance and combating corruption in economic management at both national and global levels. Its interim report was discussed by Finance Ministers in 1998, who

emphasised the need for action-oriented and balanced proposals for combating corruption and agreed that all countries should adopt a policy of 'zero tolerance' for corruption. Law Ministers received a revised report from the Group in May 1999 (see Chapter 3) and agreed that Commonwealth initiatives could include the development of a Commonwealth scheme of assistance, accession to existing international anti-corruption conventions or the promotion of initiatives within the UN for an international convention against corruption.

Finance Ministers were expected to endorse the Report and commend a Framework for Commonwealth Principles for Heads of Government to consider at CHOGM 1999.

support. Lack of institutional capacity to manage schemes is of concern. The innovative Commonwealth Youth Credit Initiative (see Chapter 12) has begun to tackle some fundamental flaws and under the umbrella of the poverty initiative, training has taken place to build institutional capacity both in governments and in the NGOs working in rural areas.

A common thread running through all these activities is that making rural enterprises profitable is the most effective way of tackling poverty and at the same time preventing environmental degradation caused by farmers forced on to marginal land or fishing communities into

unsustainable levels of overfishing. New approaches to land husbandry in the Caribbean were discussed at a workshop in Jamaica in 1998, which illustrated the point that soil erosion is reduced when farmers are engaged in profitable enterprises which encourage good stewardship of land.

Another feature of the livelihood approach is a move away from the simplistic categorisation for rural people as farmers, foresters or fisherfolk. Highly varied activities are often undertaken to sustain rural livelihoods and to identify the most pressing constraints and the most promising opportunities. This means that participation of all those involved

needs to be a prerequisite of any activity. Work in the fisheries sector in Lake Victoria, Tanzania, for example requires a lengthy period in the field identifying local needs before any planning is undertaken.

The theme of multi-faceted rural enterprises as a means of reducing rural poverty is also reflected in various industrial projects, ranging from the production of handicrafts and souvenirs on small Caribbean islands with a potential tourist market, to the development of small scale businesses.

These activities are funded by the CFTC.