

An International Initiative to Promote Poverty Reduction, Growth and Debt Sustainability in the Low-Income Countries of the Commonwealth of Independent States (CIS)

1. Recognizing the urgent need to accelerate poverty reduction and economic growth, while ensuring fiscal and external debt sustainability, in the low-income countries of the CIS, the Asian Development Bank, European Bank for Reconstruction and Development, International Monetary Fund, and World Bank have convened a ministerial meeting in Washington to consider an Initiative for these countries.

The Challenge

2. Following the break-up of the former Soviet Union, Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan (the Low-Income CIS-7 countries) faced a triple challenge to build new states, democratic institutions, and market economies.

3. During the past ten years, considerable progress has been made in most CIS-7 countries towards meeting these challenges. Nevertheless, living standards of the population have declined sharply, and the unfinished agenda remains substantial.

4. In hindsight, it is clear that the governments of the CIS-7 and the international community underestimated the complexity of the challenges of transition facing these countries, especially taking into account the disruptions created by the break-up of the Soviet Union and the domestic and external shocks that followed. Moreover, countries' reform strategies were not always appropriate or effectively implemented. It is also clear that overcoming the remaining challenges is vital both for the countries themselves, and for peace and security in the region. The urgency of the situation is shown by the large numbers of people living in extreme poverty (nearly 20 million across this group of countries as a whole).

An International Initiative

5. In recognition of this situation, the CIS-7 countries, bilateral donors, neighboring countries and four international financial institutions (IFIs) have come together to launch a collaborative international effort to enhance the economic growth and poverty reduction prospects of the CIS-7 through greater ownership of development and reform efforts in the individual countries, with the continued strong support of the international community—both through international and regional institutions, and through governments acting bilaterally. The Ministers endorse the Initiative's principles and objectives, pursuit of which will require renewed efforts and increased commitment by the CIS-7 countries and their neighbors. It will also involve a recommitment of trade and development partners and creditors, and the international and regional institutions, to provide assistance to countries following appropriate policies. While the specific problems facing each country differ, there are

common key development challenges. The key areas in need of renewed efforts are summarized below, and elaborated further in Appendix I.

- The CIS-7 countries need to implement policy and institutional reform more consistently and resolutely, within the framework of fully participatory poverty reduction strategies. They should strengthen the capacity of their governments, build greater public accountability, and strive to reduce corruption. The CIS-7 countries should ensure macroeconomic stability, promote the transparency of public finances, strengthen tax collection, and adopt appropriate policies (including improved debt management) to ensure that debt levels are sustainable. In addition, they need to implement growth-promoting structural reforms including energy sector reform (through unbundling, setting tariffs that reflect costs, and eliminating arrears and noncash settlements), maintaining open trade regimes, and creating a favorable investment climate, especially to encourage growth of small- and medium-sized enterprises. They should also target resources to priority social services and safety nets, including by ensuring adequate provision of health and education services and acting now to counter the problems of HIV/AIDS, tuberculosis, malaria, and drug trafficking and abuse.
- The CIS-7 countries need to work with their neighbors, with the support of the international community, to resolve conflicts and to foster regional cooperation especially in trade and transit, water and energy.
- Increased assistance should go to countries following appropriate policies, as discussed above. More bilateral donors need to support economic recovery in the CIS-7. Also, coordination between development agencies needs to be improved, and anchored in country-led poverty reduction programs. Trade and development partners and creditors need to provide a more open trade regime and more concessional financial support (including grants), as well as debt restructuring or debt relief where needed. Bilateral debt restructuring or debt relief should rely on existing frameworks, such as the Paris Club. Assistance under the HIPC Initiative may also be available, though at this stage it appears that only one or two of the CIS-7 countries might qualify for small benefits.
- International and regional institutions need to increase the attention and support they provide to countries in this group, with additional support going to those following appropriate policies. The IFIs need to provide technical assistance and policy advice tailored to individual country circumstances, as well as concessional financial assistance (including grants) in support of the reform efforts of the CIS-7 countries.

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NEXT STEPS UNDER THE INITIATIVE

1. **The substance of the Initiative involves renewed efforts and strengthened commitments in several areas.** The CIS-7 countries would enhance their reforms, while the Initiative would afford these efforts greater international visibility. Regional cooperation would also be enhanced. Finally, greater market access and financial assistance would be made available by the international community to support these strengthened adjustment efforts. Additional assistance would be allocated for countries pursuing stronger policies in the context of bilateral discussions, on a case-by-case basis. Any new projects or programs should include clear and measurable performance targets and indicators, with strong monitoring and evaluation systems, in the context of country-led poverty reduction strategies.

A. Stronger reforms and greater international visibility

2. **Each country should strengthen its economic reform program.** Recognizing that the increased attention and greater financial assistance provided by the international community represents a unique opportunity to press forward with reforms, the CIS-7 countries should seek to consolidate the fiscal adjustments of recent years, maintain macroeconomic stability, and achieve a new level of structural reforms. Key areas for greater efforts include the following:

- Improving the business and investment climate, especially for small- and medium-sized enterprises, by reducing excessively high marginal tax rates, simplifying licensing and registration requirements, protecting property rights, and providing basic infrastructure, while maintaining a level playing field among the newly restructured and new enterprises, and tackling corruption;
- Reducing serious spending distortions to ensure that social services and safety nets are efficient and adequately financed, public health spending is increasingly focused on basic care, public education spending is reoriented toward primary and secondary schooling, and pension systems are sustainable;
- Maintaining macroeconomic stability, including by pursuing fiscal policies that are consistent with debt sustainability and improving inefficient budget management procedures to enhance the effectiveness of poverty-fighting policies;
- Pushing forward on structural reforms, especially in the energy sector, where collection discipline should be enforced and tariffs simultaneously increased, and in the financial sector, where banking sector reform is needed to promote savings and productive investment.

3. **At this point in time, the Initiative places considerable importance on knowledge and partnerships as key to enhancing the development prospects of the CIS-7, including through the strengthening of support and consensus for reform, as well as the demand**

for capacity-building. A set of seminars and events is planned in order to help countries articulate and develop the needed reforms, focusing on the areas enumerated above. In particular, a conference devoted to the lessons of the past decade and prospects for the future will be held late in 2002. Participation will be sought from a wide variety of countries and institutions, including NGOs and academics. The conference will focus on key challenges for the CIS-7 where there are unresolved technical and/or strategic issues, as well as on reform areas that would especially benefit from a broader dialogue (e.g., the scope of social safety nets and governance issues). More concrete actions for CIS-7 or donor follow-up are expected to emerge in tandem with an increased commitment to their implementation.

4. **Topical seminars would move the agenda forward in key areas.** In some cases, these events were already in preparation, but they could benefit from the additional momentum afforded by the CIS-7 Initiative.

- The third annual **PRSP forum** later this year (following those in Moscow in 2000 and in Budapest in 2001) would, among other things, address the way the PRSP process has informed thinking about debt sustainability and growth in these countries.
- Following completion of the current round of public expenditure reviews (PERs), a **PER seminar for the CIS-7** countries would allow an opportunity to compare experiences in the low income CIS countries, and prepare to follow them up with further work on expenditure policy in the future.
- Other seminars concerning important areas of reform in the CIS-7 countries (energy, social sector, financial sector, business environment, debt management) are under preparation.

B. Improved regional cooperation

5. **Regional partnership events are being developed.** Meetings are planned with the aim of improving donor coordination, as well as offering a forum to resolve trade and other cross border disputes.

- The UNDP and the German government held a meeting in March on **Central Asia**, and that event was followed by a conference in Manila under the auspices of the AsDB.
- It is hoped that similar events could be held for the **Caucasus and Moldova** in the coming months.

C. International support for reform

International support for reform could be provided in the following ways:

6. **The Paris Club countries should consider requests for debt relief as needed.** Georgia and the Kyrgyz Republic have already benefited from assistance under this framework, and both Moldova and Tajikistan may request assistance during the coming year.
7. **Consultative group meetings should be organized to mobilize support for these countries in the coming months.** Increased assistance should go to countries following appropriate policies, as discussed above. More concessional assistance (ODA), including grants, should be provided to these countries. For example, the Kyrgyz Republic will be the subject of a CG meeting tentatively expected in the fall.
8. **Aid effectiveness could be enhanced through greater coordination among donors.** This coordination could take place through the countries' PRSP processes, and would be enhanced by strong monitoring and evaluation systems including through the use of clear and measurable performance targets and indicators.
9. **IFI programs with each country should continue** as improved policy performance and a demonstration of greater ownership of reforms through consistent implementation helps facilitate a greater flow of IFI resources to these countries.
10. **Countries have the option of requesting multilateral debt relief**—relying on existing frameworks—if the full range of traditional debt relief by commercial and bilateral creditors leaves some countries with debt levels above the HIPC thresholds. However, at this stage only one or two might qualify for small benefits.
11. **Major trading partners should work to remove barriers to exports from the CIS-7 countries.** Market access is an important precondition to restoring debt sustainability and poverty reduction in these countries, and countries represented here should work to remove impediments to their exports.

D. Follow-up events

12. **A meeting to take stock of achievements under the Initiative** should be held in about a year to assess progress subsequent to the Lancaster House event.
13. **A report to Ministers would be prepared** in time for the Spring 2003 IMFC/DC meetings.
14. In the meantime, **a CIS-7 web site will shortly be established** to facilitate coordination of activities under the Initiative.