

## **2002 Kananaskis Final Compliance Report Development – Highly Indebted Poor Countries (HIPC) Initiative**

### **Commitment:**

We will fund our share of the shortfall in the HIPC initiative, recognizing that this shortfall will be up to US \$ 1 billion.

### **Background:**

The Heavily Indebted Poor Countries (HIPC) Initiative (established in 1996) involves coordinated action by international creditors to reduce the external debt burdens of the world's poorest to sustainable levels, subject to satisfactory policy performance, so as to ensure that adjustment and reform efforts are not put at risk by continued high debt and debt service burdens. The Operations Evaluation Department (OED) of the World Bank concluded in a February, 2003 review that HIPC is highly relevant, has increased growth oriented spending and enjoys wide support but that there is a need for better management, more growth oriented focus, greater realism and transparency maintaining strong policy performance standards as prerequisites. Concerns have been raised with regard to the shortfalls in bilateral donor contributions to the HIPC Trust Fund, which the World Bank estimates to be of the amount US \$ 800 million. The IMF, the World Bank and the Finance Ministers of the G7 have reiterated the commitment taken at the G8 summit at Kananaskis to top off the gap the financing of HIPC. In October 2002 donor countries pledged an additional US \$ 850 million to the HIPC Trust Fund of which \$39 million has been paid. Donor countries are expected to fulfill their commitments to the HIPC before the end of 2003. The Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF of April 12, 2003, states, "The Committee reaffirms its commitment to the full financing in the Initiative. It urges all creditors to participate fully in and encourage Bank-Fund initiative to help"

The Development Committee Communiqué of the Spring 2003 Meeting of the IMF and World Bank "We welcomed the progress made on the HIPC initiative and reconfirmed our commitment to its implementation and full financing... We welcomed the donor community pledges to close the financing gap in the HIPC Trust Fund and urged donors to translate these into concrete contributions in the coming months... We once again reiterated the request that all official bilateral and commercial creditors that have not yet done so participate in the HIPC initiative."<sup>92</sup> However, a report issued in 2003 alleges that the G8 has failed in its pledge to reduce debt to sustainable levels. While one third of the 4205 billion owed by the 42 poorest and most highly indebted countries should have been cancelled only 20% has been so far.<sup>93</sup>

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<sup>92</sup> [www.worldbank.org/hipc/hipc\\_review/Fact\\_Sheet\\_mar03\\_.Pdf](http://www.worldbank.org/hipc/hipc_review/Fact_Sheet_mar03_.Pdf)

<sup>93</sup> [www.jubilee2000uk.org/hipc/hipc\\_news/debtrelief070103.htm](http://www.jubilee2000uk.org/hipc/hipc_news/debtrelief070103.htm)

**Assessment:**

Country	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada			+1
France		0	
Germany		0	
Italy		0	
Japan	-1		
UK			+1
US		0	
Russia	-1		
Overall		0	

**Individual Country Compliance Breakdown:*****1. Canada: +1***

According to the World Bank's data on the status of bilateral donor pledges to the HIPC Trust Fund as of end January 2003, Canada's total paid-in bilateral contributions amounts to US \$ 114 million in Nominal terms.<sup>94</sup> In a statement made on April 12, 2003 in Washington D.C., John Manley, said, "Debt reduction remains a key element of our strategy to promote longer term developing country growth and poverty reduction. In this context, we strongly support the enhanced HIPC initiative and the Fund's and the Ban's continued involvement in Debt relief." He urged donors to close the funding gap stating that Canada had just made a contribution of US \$ 75 million, which represents Canada's estimation of the gap.<sup>95</sup>

***2. France: 0***

According to the World Bank's data on bilateral donor pledges to the HIPC Trust Fund as of end January 2003, France's contributions/pledges including EU/EC attribution to bilateral amounts to US \$187 millions in nominal terms.<sup>96</sup> In a statement made by François Mer, Minister of Economy, Finance and Industry of France at the International Monetary and Finance Committee meeting on April 12, 2003 at Washington D.C.: 'One of the priorities in our fight against poverty is to implement the HIPC initiative fully and to reinforce it's impact Implementation of this initiative is a determining factor for the credibility of the international financial community, which is firmly committed to its success. Hence I want its implementation pace to be stepped up. We are also in favor of changing the method used to calculate the topping-up process in order to ensure bilateral

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<sup>94</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

<sup>95</sup> [www.imf.org/external/spring/2003/imfc/state/eng/can.htm](http://www.imf.org/external/spring/2003/imfc/state/eng/can.htm)

<sup>96</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

debt relief with a genuine add-on effect for countries having endured economic shocks. I regret to say that there is no consensus on this issue at this time.”<sup>97</sup>

### ***3. Germany: 0***

According to the World bank’s data on bilateral donor pledges to the HIPC Trust Fund as of end January 2003, Germany’s total contributions pledges including the EU/EC attributions to bilateral amounts to US \$ 232 million in nominal terms. In a statement made by Mr. Hans Eichel, Germany’s Minister of Finance on April 12: “These are essential ingredients to achieve the Millennium Development Goals. Furthermore, only budget proposals, which are neither overly optimistic nor unduly pessimistic, can serve as a reliable basis for a fruitful cooperation between donors and recipient countries. We continue to believe that good governance in debtor countries is key to achieving and sustaining economic development. If this causality is taken into account, then debt forgiveness should be aimed at good governance. We, therefore, propose that any additional financial support should primarily benefit countries with a convincing track record of good governance.”<sup>98</sup>

### ***4. Italy: 0***

According to the World Bank’s data on bilateral donor pledges to the HIPC Trust Fund as of end January 2003, Italy’s total contributions/pledges including the EC/EU attribution to bilateral amounts to US \$ 156 million in Nominal terms.<sup>99</sup>

The Governor of the Fund for Italy, Giulio Tremonti, made a statement at the Joint Annual Discussion of the IMF and World Bank on 29 September 2002 that questioned the effectiveness of the HIPC initiative. Tremonti noted that the global slowdown and the fall in commodity prices have hampered debt sustainability in a number of HIPC countries. He emphasized that “topping up at the completion point must remain an exceptional event linked to exogenous factors beyond the country’s control “Tremonti urged that all committed fund be provided and that “Italy cannot accept that it additional voluntary bilateral relief be diverted to repay other creditors instead of being channeled to provide supplementary resources to stimulate growth and reduce poverty.”

### ***5. Japan: -1***

According to the World Bank’s data on bilateral donor pledges to the HIPC Trust Fund as of end January 2003, Japan’s total contributions amounted to US \$ 200 million.<sup>100</sup>

Japan signed an agreement in February 2003 granting US \$ 2.9 million in debt relief. In the April 12 IMFC meeting Japanese Finance Minister, Masajuro Shiokawa emphasized

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<sup>97</sup> [www.imf.org/external/spring/2003/imfc/state/eng/fra.htm](http://www.imf.org/external/spring/2003/imfc/state/eng/fra.htm)

<sup>98</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

<sup>99</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

<sup>100</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

the uncertainties on the path to recovery the wake of the Iraq conflict and that “it is essential to promptly restore the debt sustainability of a country in crisis through an appropriate combination of policy adjustment, official lending from the IMF and other international financial institutions, and private sector involvement (PSI), including debt restructuring as necessary.” He welcomed the “strengthening” of criteria in the extension of resource.<sup>101</sup>

## **6. United Kingdom: +1**

According to the World Bank’s data on the status of bilateral donor pledges to the HIPC Trust Fund as of end January 2003, UK’s total contributions/pledges including EU/EC attributions to bilateral amounts to US \$ 309 million in nominal amounts.<sup>102</sup> In March 2003, the UK Chancellor Gordon Brown proposed a new scheme the ‘International Financing Facility’ to double aid flows from \$50 billion to \$100 billion in order to meet the MDGs targets by 2015 by enabling donor countries to borrow from capital markets and pay back by 2032 from their debt budgets.<sup>103</sup> These proposals were reiterated in a statement by Gordon Brown at the April 12, 2003 meeting of the IMFC. A long term commitment on the part of the UK to combating the ‘evil of world poverty’ and achieving the MDGs was asserted along with the claim that the aid budget would be increased to 49 billion pounds by 2006.<sup>104</sup>

## **7. United States: 0**

According to the World Bank’s data on the status of bilateral donor pledges to the HIPC Trust Fund as of end January, 2003, the US’s total contribution amounts to US \$600 million.<sup>105</sup> In the statement made by Secretary John W. Snow of the United States Treasury at the April 12 meeting of the IMFC, the ‘rebuilding of Iraq’ was explicitly referred to it was also said that “Maintaining strong standards on HIPC is vital. The current approach to topping up debt reduction is appropriate to assist countries to cope with external shocks.”<sup>106</sup> Snow called for Russia, Germany and France to cancel its debt to Iraq at the Finance Ministers meeting at Deauville.

## **8. Russia: -1**

A statement made by Aleksii L. Kurdin at the April 12, IMFC meeting is as follows: “We continue to support implementation of the HIPC Initiative, *inter alia* in bilateral relations with those countries that are our debtors. Debt relief may indeed contribute to poverty reduction and sustainable economic growth in the poorest countries.” This statement was, however, qualified as follows: “We continue to believe, however, that debt relief alone,

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<sup>101</sup> [www.imf.org/external/spring/2003/imfc/state/ipn.htm](http://www.imf.org/external/spring/2003/imfc/state/ipn.htm)

<sup>102</sup> [www.jubilee2000uk.org/latest/iff120303.htm](http://www.jubilee2000uk.org/latest/iff120303.htm)

<sup>103</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

<sup>104</sup> [www.imf.org/external/spring/state/eng/gbr.htm](http://www.imf.org/external/spring/state/eng/gbr.htm)

<sup>105</sup> [www.worldbank.org/hipc/StatUpdate\\_April03.pdf](http://www.worldbank.org/hipc/StatUpdate_April03.pdf)

<sup>106</sup> [www.imf.org/external/spring/state/eng/usa.htm](http://www.imf.org/external/spring/state/eng/usa.htm)

without implementing sound economic policies and strengthening institutions and governance, will not yield the desired results. For various reasons some HIPC countries may approach their completion points with deteriorated debt burden indicators.” The ‘topping-up’ commitment was said to apply only in cases where ‘the deterioration in the debt burden indicators is a result of exclusively exogenous shocks’ in strict accordance with the rules of the Initiative. This policy was reiterated in the wake of the Iraq crisis.

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## Development – Official Development Assistance (ODA)

**Commitment:**

Assuming strong African policy commitments, and given recent assistance trends, we believe in aggregate that half or more of our development assistance commitments announced at the Monterrey could be directed to African nations that govern justly, invest in their own people and promote economic freedom.

**Background:**

Official Development Assistance (ODA) targets the needs of the Less Developed Countries (LDCs). Geared towards basic social services like health, education, transportation, housing, water and nutrition, tied and untied ODA is crucial to the development of the majority of the world’s population, as outlined in the United Nations Millennium Declaration (2000) and Monterrey Consensus (2002). G8 countries are in possession of a majority of the world’s wealth and bear a responsibility towards reducing global poverty. Each member country has committed to achieving an ODA/GNP level of 0.7 per cent. However, each country remains below its target. At Kananaskis, the Africa Action Plan was adopted pledging support for the African initiative and promising that half of the additional US\$12 billion in official government assistance (ODA) which are to be raised until 2006 (as decided in Monterrey in March) will be given to African nations. However, a January 2003 estimate by the UK Government indicates that the above stated amount is not adequate to meet the Millennium Development Goals by 2015.

The Development Assistance Committee High Level Meeting of the OECD on 22-23 April 2003 took note of the preliminary ODA statistics for 2002 released on 22 April 2003, and welcomed the 5 per cent increase they record, to \$57 billion in total net ODA. They confirmed existing commitments, which, according to Secretariat calculations, would generate an increase by 2006 of about 30 per cent, or \$16 billion in real terms, over 2001 levels. Several participants restated their countries’ commitments to further increases in the longer term.

**Assessment:**

Country	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Britain			+1
Canada			+1
France			+1
Germany		0	
Italy		0	
Japan		0	
Russia		0	
United States			+1
Overall			+0.50

## **Individual Country Compliance Breakdown:**

### ***1. Britain: +1***

Britain's level of Official Development Assistance (ODA) will increase by £1.5 billion to reach 0.40 percent of GDP by 2005-06, the Chancellor of the Exchequer, Gordon Brown, announced 15 July 2002. This is the largest aid increase in the UK's history. A 93 percent real term increase in aid since 1997 provides proof of the Government's continued commitment to make progress towards meeting the UN target of an ODA/GNI ratio of 0.7 percent.<sup>107</sup> (6a)

The Department for International Development's (DFID) budget will grow to nearly £4.6 billion a year by 2005-06, an average increase of 8.1 percent per annum in real terms, including a £1 billion annual bilateral program for Africa. This increase means a substantial contribution to the reduction of poverty, enrolling children in primary school and the provision of basic health services in the poorest countries in Africa and Asia. DFID will also continue spending in other essential areas such as conflict prevention, strengthening good governance and making long-term commitments to support those countries which effectively implement their own poverty reduction strategies.

The increase means the UK's aid ratio will be more than double the current G7 ODA/GNI country average and well ahead of the current OECD average (0.22%). The UK will also have exceeded the average EU ODA/GNI target agreed earlier this year in the run up to the UN Financing for Development conference held at Monterrey, Mexico.<sup>108</sup>

### ***2. Canada: +1***

Canada was the first G8 country to commit a specific sum of money to the Africa Action Plan in the form of the CDN\$500 million Canada Fund for Africa (CFA) launched by the Prime Minister at the Kananaskis Summit on 26-27 June 2002. The Fund will allocate this sum over three years in addition to its regular aid. The CFA fosters innovation and economic growth, strengthens African institutions, and improves the well being of future African generations.<sup>109</sup>

Between 1995 and 1999, the percentage of Canada's GDP allocated to ODA was 0.32. In a DAC peer review of Canada (updated 6/12/2002), the Committee welcomed Canada's commitment to increase international assistance funding by 8 percent per year with the aim of doubling ODA volume by the end of the decade and raising the ODA/GNI ratio to around 0.35%.<sup>110</sup>

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<sup>107</sup> [www.britain\\_info.org](http://www.britain_info.org)

<sup>108</sup> [www.official\\_documents.co.uk](http://www.official_documents.co.uk)

<sup>109</sup> [www.acdi\\_cida.gc.ca](http://www.acdi_cida.gc.ca)

<sup>110</sup> [www.oecd.org](http://www.oecd.org)

### **3. France: +1**

From 1995 to 1999, the percentage of French GDP allocated to ODA was 0.45.<sup>111</sup> In a Statement issued by the Ministry of Foreign Affairs on 18 February 2003 noted that: “NEPAD is one of our priorities. Among the actors that will be useful in implementing this plan, the African Capacity Building Foundation, ACBF, founded in 1991 on World Bank initiative, stands out in particular. It is currently handling 64 development projects in 29 African countries in the context of 19 regional organizations.

In 1991 we contributed to financing the first phase of the foundation—25 million FF. We will be contributing to its medium-term action program for the next three years: a total of 5 million euros. We are strengthening our action. This contribution will be earmarked for projects identified by the foundation in French-speaking African countries. We are targeting our financial support to French-speaking countries because we wish to encourage these countries to be in the ACBF in order to make the institution a more representative structure of the continent’s cultural diversity.”<sup>112</sup>

A speech by President Jacques Chirac on 21 May 2003 reaffirmed France’s commitment to the plan of action adopted on Africa at the Kanankis summit, stating that France supports the proposal of the President of the EU to allocate 1 billion Euros for action in this area.

### **4. Germany: 0**

The percentage of German GDP allocated to ODA in the period 1995 to 1999 was 0.29. The German Government has promised support for NEPAD even in the face of the skepticism of NGOs. The Minister for Economic Cooperation and Development, Heidemarie Wieczorek-Zeul, stated €110 million would be made available in 2002 and 2003 “to add momentum to this vision of a new Africa.” The money will be used to support Africa’s own efforts in the fields of crisis prevention, economic promotion, education and health.

Africa is already the priority area for German development cooperation. 39 of 72 partner states are African countries. Almost 30 per cent of all bilateral funding goes to Africa. Including the €110 million, Germany will provide €1 billion for Africa for the years 2002/2003.<sup>113</sup>

### **5. Italy: 0**

The percentage of Italian GDP allocated to ODA in the 1995 to 1999 period was 0.16. The Italian Government has given its full support to NEPAD both on a bilateral basis and as a member of the G8. A paper released on 26 July 2002 notes that the Under-Secretary

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<sup>111</sup> [www.asiapacific.ca/data/devt/dono](http://www.asiapacific.ca/data/devt/dono)

<sup>112</sup> [www.elysee.fr/actus/arch03G8/03G8G8/speechg8.htm](http://www.elysee.fr/actus/arch03G8/03G8G8/speechg8.htm)

<sup>113</sup> [www.dse.de/zeitschr/de502-9.htm](http://www.dse.de/zeitschr/de502-9.htm)

for Foreign Affairs, Alfredo Mantica, stressed the importance of giving new and added impetus to cooperative efforts that effectively utilize ODA directed towards Africa.<sup>114</sup> Prime Minister Silvio Berlusconi's statement to the 57th General Assembly of the UN on 13 September 2002, committed 0.39 percent of Italian GDP to LDCs with a particular emphasis on Africa. Berlusconi asserted that financial aid was no longer enough and that donors should adhere to the action plan adopted at Genoa and Kananaskis.<sup>115</sup>

## **6. Japan: 0**

According to Grant Aid statistics for FY2002, grants to Africa totaled 100 million Yen between 1 July and 31 December 2002. The ODA budget for 2002 was 538.9 billion Yen while 613.9 billion Yen had originally been proposed for FY 2003. In February, 2003, however, the Foreign Ministry announced that spending on official development aid in the proposed 2003 budget is slated to drop 9.4 percent to US\$9.64 billion compared to the US\$10.6 billion allocated last year. The government cut 11.9 percent from foreign aid in 2002.

The proposed budget includes cuts in both overseas loans and grants. Grant Aid for 2003 is to fall 8 percent from last year while loan assistance is slated for a 3.5 percent decrease. Prime Minister Junichiro Koizumi has emphasized that donor countries should focus on the quality of aid, not the overall amount.<sup>116</sup> In a review of Japan's ODA, published 14 March 2003, various principles of Japanese ODA were articulated and Asia was identified as the focus area.

## **7. Russia: 0**

At a press conference following the G8 Summit of 2002, President Vladimir Putin outlined Russia's position on African development. Putin emphasized Russia's debt write-offs, contributions to health care development, environmental protection and education. Putin stated that: "Russia's assistance to African countries is multi-pronged, and we are convinced that this activity ultimately meets the national interests of the Russian Federation itself and intend to continue this work together jointly with other G8 countries." A statement by the Russian Prime Minister Mikhail Kasyanov notes that "Russia has written off African debts totaling 35 billion dollars, which constitutes approximately half of the total amount written off by the other nations."<sup>117</sup> However, no statements pertaining to an increase in ODA to Africa that would fulfill the 50% G8 commitment were found.

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<sup>114</sup> [www.esterii.it/attualita/2002/eng/notes/index.html](http://www.esterii.it/attualita/2002/eng/notes/index.html)

<sup>115</sup> [www.italyun.org/statements.Berlusconi57eng.htm](http://www.italyun.org/statements.Berlusconi57eng.htm)

<sup>116</sup> [www.iht.com/articles/85543.html](http://www.iht.com/articles/85543.html)

<sup>117</sup> [www.ln.mid.ru](http://www.ln.mid.ru)