Debt Sustainability for the Poorest

Commitment

“We are committed to fully implementing the HIPC initiative and to supporting debt sustainability in the poorest countries through debt relief and grant financing. To that end, we have asked our finance ministers to:

• Work with other donors and the other international financial institutions to extend the sunset date of the HIPC initiative until December 31, 2006 and to provide the necessary financing for the completion of the initiative, including topping up where appropriate.
• Consider further measures that can help the poorest countries further address the sustainability of their debt.”

Debt Sustainability for the Poorest

Background

Proposed by the World Bank and IMF and agreed by governments around the world in 1996, the HIPC Initiative was the first comprehensive approach to reduce the external debt of the world’s poorest, most heavily indebted countries. More so, it represented an important step forward in placing debt relief within an overall framework of poverty reduction. Nevertheless, after major NGOs and developing states doggedly highlighted that debt relief was still only available to a few countries and even then at slow rates, a major review of the scheme was mandated by the G8 in preparation for the 1999 Cologne Summit. At that summit, the Enhanced HIPC Initiative was announced which resulted in significant enhancements to the original framework and the establishment of the Poverty Reduction and Growth facility, the latter of which outlined pre-agreed structural reforms, a program to which candidates must adhere in order to qualify. Since that time, good governance has been tied to debt relief. The topping-up of debt relief, which is available to countries at completion point, is crucial to ensure that a country remains resistant to exogenous shocks. The HIPC Initiative is a program designed under the framework of the UN Millennium Development Goals (MDG) and its central objective is the propagation of sustainable development. James Wolfensohn, former President of the World Bank, describes the

837 Debt Sustainability for the Poorest, Office of the Press Secretary (Washington) 10 June 2004. Date of access: 10 January 2005. [www.g8usa.gov/061004b.htm]
initiative as a “comprehensive way to give countries the possibility of exiting from unsustainable debt. It is very good news for the poor of the world.”

Assessment

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<th>Work in Progress</th>
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Individual Country Compliance Breakdown

The following information is relevant to all countries listed below and is considered evidence of each country’s compliance with the debt relief commitment specified above:

The staff of the IMF has proposed that the sunset clause of the Enhanced HIPC Initiative be extended to end-2006, in line with the G8 Sea Island commitment on debt sustainability. This recommendation was endorsed by the Boards of the IMF and World Bank, where the G8 control a near majority share-holder interest, at their September 2004 meeting where the sunset date was indeed extended to December 2006. The one proviso was that the HIPC deadline extension would be restricted to “IDA-only and Poverty Reduction Growth Facility (PRGF) eligible countries that have not yet benefited from HIPC debt relief and are assessed to have external public debt in excess of the Enhanced HIPC Initiative thresholds after full application of traditional debt relief mechanisms based on end-2004 debt data.” The IMF and World Bank also agreed to consider further extending the deadline beyond 2006 as warranted, “giv[en] the challenges facing some countries.” Nevertheless, the agreement reached by the IMF and World Bank has still been criticized as “not sufficient” by Paul Toungui, the Minister of Finance for Gabon.

On 7 January 2005, the Finance Ministers of the G7 announced that they would suspend all debt service receipts from nations affected by the Asian Tsunami until the IMF and World Bank have properly analyzed affected nations’ financial assistance needs. After reviewing the assessment of the IMF and World Bank of the countries affected by the Asian Tsunami, the Paris Club creditors agreed to not expect any debt payments from affected nations before 31 December 2005. Moratorium interest will be capitalized and paid over five years, with one year of grace.

During their meetings in February (Moscow) and April (London) of this year, the Finance Ministers and Central Bankers of the G7 nations reaffirmed their commitment to a case-by-case examination of the HIPC’s debt burdens. The Ministers thanked the IMF’s directors for their suggestions on financing an expanded debt relief program and stated their willingness to provide “up to 100% debt relief”, so long as it did not unduly strain the resources of the International Development Agency and the African Development Bank.

On 11 June 2005, the G7 Finance Ministers announced a comprehensive new debt relief initiative in anticipation of the upcoming 2005 Gleneagles Summit. This new scheme would award 18 nations who have reached the HIPC completion point, complete multilateral debt relief, including debt owed to the World Bank, IMF, International Development Association and the African Development Bank. The deal is worth US$40-billion and is the largest single cancellation of debt in history. Another nine countries are eligible for similar debt relief when they reach the completion point, bringing the total value of the G7 relief package in that case to US$51-billion.

1. Canada: +1

Canada has actively complied with its Sea Island debt relief commitments. The G8 African Action Plan (AAP), of which debt relief is a major pillar, has been a priority for Canada and the backbone of its development policy towards Africa since it hosted the 2002 Kananaskis G8 Summit. Since that time Canada has supported 100% cancellation of sovereign debt, including

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847 Statement by G7 Finance Ministers on Assisting Countries Devastated by the Indian Ocean Tsunami, Department of Finance Canada (Ottawa) 7 January 2005. Date of access: 14 May 2005. [www.fin.gc.ca/activity/G7/g7070105_e.html]
849 Ibid.
852 Ibid.
commercial sovereign debt, for the ‘poorest eligible countries.’ In September 2004, Finance Minister Ralph Goodale announced that Canada would cancel approximately C$7 million owed to it by Ethiopia, Senegal and Ghana under the Enhanced HIPC Initiative. On 17 January 2005, Goodale announced that Canada would cancel the C$21-million debt owed to Ottawa by Madagascar as a further step towards implementing the HIPC Initiative.

Minister of Finance Canada Ralph Goodale served as a private member of British Prime Minister Tony Blair’s Commission for Africa which spent a year probing the cause of under-development of Africa and the ways in which G8 and African countries could reverse it. The findings of the Commission for Africa were released on 11 March 2005. In the report, the Commission recommended 100% cancellation of all bilateral and multilateral debt stock and service for all HIPCs, including those Sub-Saharan nations not included in the Enhanced HIPC Initiative.

On 16 April 2005, Minister Goodale addressed the International Monetary and Financial Commission. He reiterated Canada’s commitment, originally made in February 2005, “to cover the debt-service obligations of eligible reforming low-income countries to the International Development Agency (IDA) and the African Development Fund.” Such contributions will be available until 2015 or when the individual HIPCs reach completion point, and thus will give these nations “fiscal space” to complete their development goals. Mr. Goodale urged other nations to follow suit and to provide the IMF with the resources necessary to provide debt relief to eligible countries. For these reasons, Canada has been awarded a score of +1.

2. France: +1

France has complied with its Debt Relief commitments. France has long relied on debt relief as a primary component of its Official Development Assistance (ODA). In fact, in 2002, HIPC debt relief accounted for almost a quarter of France’s ODA. In particular, the OECD has lauded France’s use of C2D (contrats de désendettement et de développement), a new instrument that “refinanc[es] ODA debt repayments from HIPCs through grants.” Through these instruments, France has partially eliminated the debt of several HIPCs.

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860 Ibid.
861 Ibid.
862 France. DAC Peer Review: Main Findings and Recommendations, OECD (Paris) 2004. Date of access: 14 May 2005. [www.oecd.org/document/11/0,2340,en_2649_33721_32070731_1_1_1_1,00.html]
863 Ibid.
In his statement to the International Monetary and Financial Committee, Minister of Economy, Finance and Industry Breton stressed the need to increase funding for the HIPC Initiative in order to accommodate nations that had yet to reach the completion point, including Sudan, Somalia and Liberia.\textsuperscript{864} He also urged the expansion of facilities to deal with the debt sustainability problems of non-HIPC nations (including Nigeria and India), such as the Evian Approach of the Paris Club.\textsuperscript{865} Finally, M. Breton believes that the proposals of the IMF and World Bank concerning multilateral debt relief are the most sustainable of all schemes suggested by interested parties.\textsuperscript{866} He described the plan as: “as many loans as possible, as many grants as necessary, to ensure genuine sustainability.”\textsuperscript{867} France is also ready to consider additional relief for HIPC debt to the IDA and African Development Fund.\textsuperscript{868}

On 3 October 2004, France provided a total of €2 million to the Fiduciary Fund of the Republic of Burundi.\textsuperscript{869} More impressively, however, France effectively wiped out all of Senegal’s debt to the French state as well as to private French financiers.\textsuperscript{870} An accord between the French and Senegalese governments was announced on 29 November 2004 wherein the total debt owed by Senegal to all French sources (private debts were subsumed by a State holding company) — amounting to €217 million — were to be eliminated.\textsuperscript{871} Despite France’s positive contributions toward the Enhanced HIPC Initiative, it has not openly published a plan for the elimination of debt held by non-G8 nations or multilateral institutions. For the reasons delineated above, France has been awarded a score of +1.

3. Germany: +1

Germany has fully complied with its Debt Relief commitments. Of the 15 countries that have reached completion point in the HIPC initiative\textsuperscript{872}, Germany has forgiven the debt of one since the Sea Island Summit: Ethiopia (€67 million, which is about 90% of the country’s external debt).\textsuperscript{873} Along with the majority of the Paris Club creditors, Germany has offered to ‘provide

\textsuperscript{865} Ibid.
\textsuperscript{866} Ibid., p. 9.
\textsuperscript{867} Ibid.
\textsuperscript{868} Ibid., p. 8.
\textsuperscript{869} France Provides a Grant of Two Million Euros to the Fiduciary Fund For the Payment of Burundi’s Multilateral Debt, World Bank (Washington) 3 October 2004. Date of access: 10 January 2005. [web.worldbank.org/WEBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20265382~menuPK:336998~pagePK:64020865~piPK:149114~theSitePK:336992,00.html]
\textsuperscript{871} Ibid.
complete write-off” of Guyana’s debts if there is consensus between the members of the Club.  

Although Germany has not remitted the debt of the rest of the countries, it has been providing grants and technical assistance to most of them.

In a speech to the International Monetary and Financial Committee in April, 2005, the Finance Minister of the Federal Republic Hans Eichel noted that, although great progress had been made in the Enhanced HIPC Initiative, the IMF and its member states must remain vigilant lest debt levels rise to unsustainable levels in those HIPCs past completion point. Mr. Eichel also said that Germany supports further multilateral debt relief in those situations in which: the sustainability of post-completion point HIPCs’ debt burdens comes under threat; good governance is demonstrated; and the financial stability of the multilateral institutions is not endangered. He stressed the importance of structural reform and economic growth in Low Income Countries (LICs) as a fundamental solution to unsustainable debt burdens and vowed continued German support for those countries that met such criteria. Finally, the Minister announced that Germany would be prepared to support a Paris Club cancellation of 100% of the commercial debts of eligible nations, provided that such debt had been contracted prior to the 1999 Cologne Summit. For these reasons, Germany has been awarded a score of +1.

4. Italy: +1

Italy has fully complied with its Debt Relief commitments. Italy has chosen a middle ground between Japanese insistence on minimal changes to the HIPC Initiative, and the British proposal to radically increase and accelerate African and HIPC debt relief.

Finance Minister Siniscalco, when addressing the International Monetary and Financial Committee in April, 2005, stressed the importance of using debt relief together with other forms of ODA in order to achieve the Millennium Development Goals (MDGs). In particular, he stated that debt relief “should be considered in the context of a comprehensive creditor framework for multilateral debt relief” as well as more efficient “bilateral resources; … successful completion of the Doha Round … promot[ion of] the private sector and … efforts to strengthen governance and improve absorptive capacity”. He also asked that funding considerations take into account the recent extension of the sunset clause and the needs of the PGRF.


876 Ibid.

877 Ibid. p. 6.

878 Ibid.


880 Ibid.

881 Ibid.
At a joint British-Italian Summit in July, 2004, Prime Ministers Blair and Berlusconi both stressed their support for the full implementation of the HIPC Initiative, but recognized that aid must rely on other facets of economic development as well. Nevertheless, Rome has given every indication that it will not block any major G8 initiative to provide 100% multilateral debt relief to LDCs and is generally content to agree with the consensus. For these reasons, Italy has been awarded a score of +1.

5. Japan: +1

Japan has complied with its debt relief commitments. Despite the fact that Japan was the second largest donor nation by volume of ODA flows in 2003, its development assistance programs do have some troublesome implications for the Enhanced HIPC Initiative. In particular, partly because of the Asian Financial Crisis, Japan has become the largest bilateral foreign donor of all OECD countries, and its loans to Least Developed Countries (LDCs) are growing. Japan has the largest ODA and non-ODA total claim against the members of the HIPC Initiative (US$10.5 billion), larger than any other G7 creditor nation. Japan, however, sees this as an advantage in its commitment to debt relief; under the Initiative, “Japan will be one of the biggest contributors in terms of bilateral debt relief”.

In recent months, Japan has become adamant about the need to pursue alternatives to 100% debt forgiveness to all HIPC Initiative members. In a speech to the International Monetary and Financial Committee, H.H.E. Sadakazu Tanagaki stressed his belief that the IMF should continue to follow a case by case approach to debt forgiveness and promote sustainable debt loads through “private sector development and nurturing a credit culture”. Mr. Tanagaki believes that complete debt reduction would both foster moral hazard and reduce the debt load of the HIPC Initiative members far below “sustainable” levels.

6. Russian Federation: +1

Russia has fully complied with its debt sustainability commitment. In a statement to the International Monetary and Financial Committee on 16 April 2005, Finance Minister Aleksei Kudrin, commented on the progress made on implementation of the Enhanced HIPC Initiative,
noting that, since the IMFC’s previous meeting, an additional 4 countries have met the requirements for eligibility.\textsuperscript{890} However, Minister Kudrin warned that many countries have “gone off track”, preventing them from “enjoying full benefits offered by the Initiative in terms of debt relief”.\textsuperscript{891} Mr. Kudrin affirmed Russia’s “readiness to contribute resources to the account for the subsidization of emergency assistance for natural disasters”.\textsuperscript{892}

Mr. Kudrin also stressed that debt relief must not be the sole means of addressing the financial troubles affecting developing countries, but must be combined with encouragement of “financial discipline” in indebted countries and “display[s of] restraint in extending new credit” on the part of creditor nations.\textsuperscript{893} Russia believes that further debt relief initiatives should be restricted until the Enhanced HIPC Initiative has been completed, and that further debt forgiveness should be available only to those countries “that have already reached a HIPC Initiative completion point and are continuing to implement sound economic policies”.\textsuperscript{894} In light of this statement, Russia appears hesitant to commit to an institutionalized system of debt relief or assistance, and has not made an official comment regarding the possible creation of the International Finance Facility proposed by the United Kingdom in April 2004.\textsuperscript{895}

Russia has, however, remained committed to a case-by-case review of debt relief,\textsuperscript{896} and continues to pursue bilateral debt relief agreements under the framework of the Paris Club HIPC Initiative. The most recent agreement was made 27 July 2004 between Russia and Nicaragua to drop some US$340 million in debt incurred in arms purchases from the Soviet Union.\textsuperscript{897}

Russia has committed US$14.6 million under the PRGF-HIPC Trust, in the form of grants and subsidies distributed on an as-needed basis.\textsuperscript{898} The directive, signed 4 May 2005 by Russian

\begin{footnotes}


891 Ibid.

892 Ibid.


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Prime Minister Mikhail Fradkov, commits US$10 million to the trust fund in 2005, and an additional US$5 million in 2006.\textsuperscript{889}

7. United Kingdom: +1

The United Kingdom has fully complied with its Debt Relief commitments. In its role as the 2005 President of the G8, Great Britain is playing an active and successful role in its commitment to debt relief and has made the issue one of the cornerstones of its Summit agenda.

The United Kingdom has come forth urging the other “G7 nations to follow its example and write off debts owed by the world’s poorest countries.”\textsuperscript{900} The United Kingdom has announced that it will further aid those HIPC\textsuperscript{s} with debts to the World Bank and the African Development Bank “by unilaterally paying [its] share of the cost of servicing this debt, i.e. 10%.”\textsuperscript{901} It is calling for other nations to follow its lead in covering such debt service payments. It believes that the United Kingdom’s own commitment to cancel 100% of all bilateral debts owed by HIPCs should be matched by the multilateral organizations and is actively seeking the support of other national governments to encourage the IMF and World Bank to adopt such measures.\textsuperscript{902} Bilateral relief as well as efforts to deepen multilateral relief, according to Chancellor Brown, will be expanded beyond the confines of the HIPC Initiative to include all poor countries meeting debt load and economic reform requirements.\textsuperscript{903} Of these other poor nations, International Development Minister Hilary Benn believes that up to ten may be included in the Enhanced HIPC Initiative thanks to the extension of the sunset clause by a further two years.\textsuperscript{904} With regards to long-term debt sustainability, Great Britain supports this by “more grant financing and debt relief so that debt service obligations are not hampering countries’ progress towards meeting the MDGs.”\textsuperscript{905}


\textsuperscript{902} UK to Provide Deeper Debt Relief to Poor Countries, Department for International Development (London) 26 September 2004. Date of access: 15 January 2005. [www.dfid.gov.uk/news/files/pressreleases/deeperdebt-full.asp]


\textsuperscript{905} Millennium Development Goals: Aid, Trade, Growth and Global Partnership, Department for International Development (London). Date of access: 21 May 2005.
At a bilateral meeting held between Italy and the UK in July 2004, the two nations “reaffirmed their commitment to providing debt relief and to channeling that relief towards poverty reduction through full implementation of the HIPC initiative.”

In his address to the International Monetary and Financial Committee on 16 April 2005, Chancellor of the Exchequer Gordon Brown reiterated Great Britain’s commitment to “ensure the completion of the HIPC initiative so that all eligible countries can benefit from HIPC debt relief; to achieve more effective topping up at completion point; to encourage other creditors to participate; and to ensure that the initiative is securely and fully financed”. He further urged the members of the G7 nations to agree on a financing plan for 100% debt relief and emphasized the fact that a fraction of the IMF’s gold reserves could be sold without causing disruption to the global gold market in order to finance such an objective. Chancellor Brown conceded, however, that gold sales were only a partial answer, and that further support from rich countries, for both debt relief and critically necessary development projects, is paramount.

The findings for the Commission for Africa, of which Prime Minister Tony Blair is chair, were released on 11 March 2005. In the report, the Commission recommended 100% cancellation of all bilateral and multilateral debt stock and service for all HIPCs, including those Sub-Saharan nations not included in the Enhanced HIPC Initiative. The report also highlights the shortcomings of the Initiative, which it claims made debt relief “an accounting clean-up” rather than a meaningful elimination of the debt burden of poor countries. The report calls on donor nations to expand the terms and criteria for debt relief, so that reforming nations across Africa may benefit, and provide the necessary resources for cancellation of multilateral debt rather than simply bilateral debt. For these reasons, the United Kingdom receives a score of +1.

8. United States: +1

The United States has complied with its Debt Relief commitments. In September, the United States urged partial cancellation of poor country debt to the IMF and World Bank, and tabled a proposal that further assistance by the IMF and World Bank to least-developed countries come in the form of grants rather than loans. The plan, however, has been criticized for placing the

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808 Ibid.
809 Ibid.
811 Ibid.
812 Ibid., p. 320.
burden for debt forgiveness solely onto the resources of the international financing vehicles.\(^{914}\) Treasury Secretary John Snow has, nevertheless, reiterated the Bush Administration’s commitment to 100% debt cancellation for nations that participate in the HIPC Initiative.\(^{915}\) Mr. Snow has suggested, however, that debt relief should also be encouraged in other ways, such as changing the macroeconomic fundamentals of the poorest nations and thereby allowing them to earn a greater national income.

In his address to the International Monetary and Financial Committee in April, 2005, Secretary Snow downplayed the importance of HIPC debt relief. He reiterated the United States’ belief that “[h]elping low-income countries depends on ending the lend-and-forgive cycle and moving into an era of sustainable debt”.\(^{916}\) He welcomed the new debt sustainability framework and the increase in grants and debt relief by the International Development Agency and the African Development Fund.\(^{917}\) However, Secretary Snow categorically rejected arguments in favour of IMF debt relief or the sale of IMF gold for such purposes.\(^{918}\) The Secretary’s statements are in direct opposition to the proposed schemes for debt forgiveness and debt relief funding proposed by the United Kingdom.

9. **European Union: +1**

The European Union has fully complied with its Debt Relief commitments. The EU itself is not a substantial creditor of any kind. Most of debt relief programs and activities are implemented through bilateral actions between HIPC and the separate EU member states, who are the legal owners of the debt, within the G8 framework.\(^{919}\)

At the Africa-Europe Dialogue Third Meeting of the Troikas, experts commented that debt relief in itself will not be sufficient for ‘long term debt sustainability’ and called for a more “active participation of the debtor countries in the appropriate fora regarding further discussions on external debt”.\(^{920}\) The EU is participating actively in the development of LDCs but it cannot act as a sovereign state which lends or remits debts as such acts are ultimately undertaken by the member states themselves.

In his address to the International Monetary and Financial Committee in April, 2005, EU Commissioner Joaquin Almunia welcomed the IMF’s extension of the HIPC Initiative sunset clause but expressed concern that some post-conflict HIPC may still be ineligible for debt relief.

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\(^{917}\) Ibid.

\(^{918}\) Ibid.

\(^{919}\) *Address by Mr. Theodorakis, Acting Director-General, to the South African Heads of Mission on EU-Africa relations*, European Commission (Brussels) 5 July 2004. Date of access: 15 January 2005. [europa.eu.int/comm/development/body/eu_africa/docs/address_040705.pdf#zoom=100]

under the Initiative. In a separate speech on behalf of the EU Council of Economic and Finance Ministers, Prime Minister Jean-Claude Juncker said that the EU supported 100% cancellation of multilateral debt on a case-by-case basis. He also urged for other low-income nations to be offered debt relief. Prime Minister Juncker called for increased contributions from donor nations to the World Bank and the African Development Fund in order to finance further debt relief. He welcomed the examination of the various means by which debt cancellation by the International Monetary Fund might be achieved, including alternative sources of financing and the sale of gold.

For the reasons stated above, in particular the extension of the sunset clause to end-2006 and the EU’s support for comprehensive and total debt relief, the European Union has been awarded a score of +1.

Compiled by Michael Erdman and Michael Lehan
G8 Research Group
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923 Ibid.

924 Ibid.

925 Ibid.