Debt Relief: Africa

Debt Relief (Africa):

“The G8 has also agreed that all of the debts owed by eligible heavily indebted poor countries to IDA, the International Monetary Fund and the African Development Fund should be cancelled, as set out in our Finance Ministers agreement on 11 June.”

-Chair’s Summary

Background:

Launched by the IMF and the World Bank in 1996, the Heavily Indebted Poor Country (HIPC) Initiative joined together multilateral institutions, the Paris Club and official bilateral creditors in a comprehensive approach aimed at reducing the external debts of low-income, heavily indebted poor countries. Under the HIPC plan, developing states would have to adopt extensive IMF- or World Bank-supported structural reform strategies in order to become eligible for comprehensive debt relief. As a result, debt relief would only become available to a limited number of countries, and at even slower rates. In preparations for the 1999 Cologne Summit, the G8 Finance Ministers expressed concern about the “vulnerability of many HICPs to exogenous shocks” and called for “faster, deeper and broader debt relief for the poorest countries that demonstrate a commitment to reform and poverty alleviation.”

Cognizant that the mounting debt stocks of the developing countries are hindrances to economic growth and to sustainable development, at Cologne, the G8 introduced the Enhanced HIPC Initiative by reinforcing the old HIPC framework with “the prospects for a robust and lasting exit for qualifying countries from recurrent debt problems.” To date, several developing countries have benefited from the Enhanced HIPC Initiative. Since then, particularly with the adoption of the Africa Action Plan at the 2002 Kananaskis Summit, “good governance, prudent new borrowing, and sound debt management” have been explicitly tied to debt relief. At the 2005 Gleneagles Summit, the G8 leaders met with the heads of the IMF, the World Bank and African leaders to discuss new debt relief strategies that could help HIPC states achieve the framework of the UN Millennium Development Goals (MDGs). On 8 July 2005, the G8 announced that it would cancel 100% of

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the debts held by 18 eligible HIPC countries, all of which are in Africa. While many anti-poverty campaigners and NGOs remained critical of the outcome, believing the G8 could and should do more, UN Secretary-General Kofi Annan said that the announcement marked the beginning of the fight against global poverty.

Team Leader: Susan Khazaeli

Assessment:

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Individual Country Compliance Breakdown:

1. Canada: +1

The Canadian government took the necessary steps to comply with its Gleneagles commitment on African debt relief. It encouraged multilateral creditors to adopt the G8 proposal for 100% debt reduction for eligible low-income and qualifying HIPC countries. In late September 2005, former Finance Minister Ralph Goodale called on the IMF to fulfill “its core competency of helping countries achieve macroeconomic stability through policy advice, capacity building and, when necessary, financial assistance.” Accordingly, the Department of Finance announced Canada’s commitment of an additional CAD$1.3 billion toward “further and better debt relief.”

In autumn, Canada also took part in the reorganization and reduction of Nigeria’s debt to the Paris Club creditors.

More recently, at a G8 Finance Ministers meeting, held in Moscow from 10-11 February 2006, Canada praised the IMF’s decision to implement 100% debt relief for qualifying HIPC countries, and encouraged the International Development Association and the

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African Development Fund to “finalize urgently all necessary steps for implementation.”

The Canadian government remains committed to debt reduction. At an IMF meeting on 22 April 2006, Finance Minister Jim Flaherty reaffirmed this commitment, saying that “Canada has contributed to the costs of IMF debt cancellation and will contribute to the Exogenous Shocks Facility.”

Canada appreciates the link between debt sustainability and good governance. Thus, by alleviating the repayment burden, heavily indebted countries can focus on development, and gear the freed resources toward poverty reduction.

Analyst: Susan Khazaei

2. France: +1

France continues to make significant progress towards fulfilling its G8 commitment on African debt relief. In late October 2005, France agreed to a large debt relief package, which purports to cancel about 60% of Nigeria’s debt to the Paris Club. Consequently, Nigeria was able to pay off its final installment to its Paris Club creditors, becoming the first African nation to do so.

The French government has also successfully advocated the cancellation of debt under the Multilateral Debt Relief Initiative (MDRI). On 5 January 2006, France was part of the IMF initiative that extended 100% relief to 19 countries on all outstanding debt prior to 1 January 2005. The following day, the IMF delivered an estimated US$3.4 billion to these countries. Acting through the Paris Club, France relieved Nigeria of 60% of its debt. More recently, the World Bank announced that it would provide an estimated US$37 billion in debt relief over the next four decades to eligible indebted countries, many of them in Africa.

On April 28, Cameroon became the 19th African country to become eligible for debt relief from the World Bank, International Monetary Fund, and the African Development Bank under the Heavily Indebted Poor Country (HIPC) initiative. As a result, the French government has pledged

US$195 million in debt relief to the country for urban development.\(^{301}\) France maintains support for future debt relief for HIPC countries, which have met the requisite criteria of the initiative.

Analyst: Tiffany Kizito

### 3. Germany: +1

Germany registered strong compliance with regard to its Gleneagles’ commitment on African debt relief. Berlin demonstrated strong support for the debt cancellations of eligible HIPC countries. On 22 April 2006, the World Bank approved the Multilateral Debt Relief Initiative (MDRI), canceling the debts of 17 eligible countries — many of them in Africa — under the Highly Indebted Poor Country (HIPC) initiative.\(^{302}\) The IDA is expected to begin providing some US$37 billion in debt relief in early July. At a meeting of the IMF’s International Monetary and Finance Committee, German Finance Minister Peer Steinbrück reaffirmed Berlin’s commitment, saying: “Germany is committed, on the basis of fair burden sharing and according to established criteria, to contribute to the costs arising from the extension of the list of eligible indebted poor countries (HIPCs) recently agreed to in the respective boards.”\(^{303}\) Elaborating on this subject, Steinbrück said that while Germany agreed to the “ring-fencing” of eligible HIPC countries, it would support new measures to accommodate other countries that were not yet included in the HIPC because of out-of-date financial data. While Germany supports the idea of extending relief to larger list of Least Developed Countries (LDC), it also advocates strong measures to prevent new accumulations of unsustainable debt.\(^{304}\)

Analyst: Alex Turner

### 4. Italy: +1

Italy complied with its Gleneagles’ commitment to African debt relief. Positive action includes Rome’s participation in Nigeria’s debt reorganization. After extending “strong support to Nigeria’s economic development policy,” Italy, alongside other Paris Club creditor nations, offered Nigeria an estimated US$18 billion in debt relief.\(^{305}\) Italy in particular cancelled roughly

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€872 million out of a total of, now restructured, commercial credits and aid credits worth one billion and a half euros.\footnote{www.esteri.it/eng/6_38_90_01.asp?id=2192&mod=1}

Analyst: Nina Popovic

5. Japan: +1


Analyst: Alex Turner
6. Russia: +1

The Russian Federation continues to actively support debt reduction initiatives for low-income countries. On 6 January 2006, Russia joined other IMF creditor nations in forgiving US$3.3 billion of debt owed by 19 countries under the Heavily Indebted Poor Country (HIPC) initiative.\[^{313}\] In late October, Russia demonstrated compliance by participating in the cancellation of a substantial portion of Nigeria’s debt to the Paris Club group of creditor nations.\[^{314}\] On 31 March 2006, Russia signed the last of five bilateral agreements with Nigeria, forgiving some US$23.2 million in debt.\[^{315}\] Deputy Russian Finance Minister, Sergey A. Storchak praised the agreement, saying he hoped “that coming years would bring growth in the relationship between the two countries.”\[^{316}\] In preparation for St. Petersburg, Aleksey Kudrin, the Russian Finance Minister, announced that Moscow would write off 100 percent of the debt owed to Russia by at least 15 developing states, most of them in Africa.\[^{317}\] The countries that will benefit from this announcement are: Benin, Zambia, Madagascar, Mozambique, Tanzania, Ethiopia, Guinea, Guinea-Bissau, Sao Tome and Principe, Chad, Burundi, Congo, Somalia, Sudan, and Central African Republic.\[^{318}\] Finally, in June 2006, Kudrin announced that Moscow would write off US$688 million owed by African countries and channel US$250 million through a debt-for-development swap back World Bank projects in Africa, particularly projects that help African states gain access to cheap energy and fight infectious diseases.\[^{319}\]

Analyst: Eugene Berezovsky

7. United Kingdom: +1

The United Kingdom demonstrated continued leadership in advocating the Gleneagles commitments on debt relief. On 22 March 2006, British Finance Minister Gordon Brown delivered the government’s annual budget which stipulated that “the UK will continue to pay its share of the debt service owed to the World Bank and African Development Bank by other low-income countries that meet the criteria for ensuring that the debt service savings are used for poverty reduction.”\[^{320}\] The budget also fulfilled an earlier commitment reached in late October 2005 to cancel a substantial portion of Nigeria’s debt to the Paris Club. With the passing of the

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budget, the British government has written off £4.5 billion of debt owed to it by Nigeria. The United Kingdom has also carried through on a commitment to cancel the debts of 19 eligible countries under the Heavily Indebted Poor County (HIPC) initiative.

The United Kingdom has also successfully advocated multilateral debt cancellations for eligible HIPC countries to the IDA, IMF, and the African Development Fund. Following the IMF’s announcement to cancel the debts of 19 qualifying countries, the World Bank also approved the Multilateral Debt Relief Initiative (MDRI), calling off the debts of 17 eligible HIPC countries.

8. United States: +1

The United States fulfilled its Gleneagles commitment to African debt relief. In February 2006, the United States was part of the IMF initiative that extended 100% relief to 19 countries, several of them in Africa, on all outstanding debt. This relief is estimated at about US$3.4 billion. The American administration has also been successful in advocating multilateral debt relief under the Multilateral Debt Relief Initiative (MDRI) of the World Bank, which has since pledged US$37 billion over four decades in debt relief to 19 eligible Heavily Indebted Poor Countries (HIPC). American support for debt relief has been positive: the United States participated in the cancellation of 60% of Nigeria’s debt to the Paris Club creditors in late October 2005, helping to make Nigeria the first African country to successfully eliminate its foreign debt.

More recently, the administration reaffirmed America’s commitment to the HIPC initiative. The current draft of the 2007 budget includes a provision for 100% debt cancellation to qualifying

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HIPC's. On 28 April 2006, the U.S. joined its fellow IMF members in declaring Cameroon’s eligibility for debt relief under the HIPC initiative.

Analyst: Tiffany Kizito

9. European Union: +1

The European Union complied fully with its Gleneagles commitment to African debt relief. In October 2005, Brussels reaffirmed the “need for broader and deeper debt relief.” Also in October 2005, the EU adopted a new proposal, “EU Strategy for Africa.” While the strategy focuses primarily on helping African states attain the UN Millennium Development Goals (MDGs), debt relief is also a factor. The strategy maintains that “apart from remaining committed to full implementation of the enhanced HIPC initiative, the EU would consider supporting new international initiatives, which might for example cover countries emerging from conflict or suffering from external exogenous shocks.”

In addition to the aforementioned proposal, the EU Finance Ministers have been instrumental in promoting the G8’s debt cancellation plan to the shareholders of the International Monetary Fund and of the World Bank. Following a meeting with his EU equivalents on 10 September 2005, Britain’s Foreign Minister, Mr. Gordon Brown, expressed his hope that, “at the annual meetings in a few days time all the shareholders of the International Monetary Fund and the World Bank will be able to vote on a debt relief package that will wipe out the stock of debt of the poorest countries.” Pressures on the IMF have thus far been successful. In December, the IMF announced that it would offer 100% debt relief, approximately US$3.3 billion, to 19 eligible nations.

Analyst: Nina Popovic

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