

2003 Evian Interim Compliance Report Debt: Highly Indebted Poor Countries

Commitment:

2003 – 16: “We reaffirmed the objective of ensuring lasting debt sustainability in HIPC countries and noted that these countries will remain vulnerable to exogenous shocks, even after reaching completion point. In this context we have asked our Finance Ministers to review by September [2003] mechanisms to encourage good governance and the methodology for calculating the amount of “topping-up” debt relief available to countries at completion point based on updated cost estimates”.

Background:

The Debt Initiative of the Heavily Indebted Poor Countries (HIPC) was launched in 1996 by the World Bank and the International Monetary Fund.¹⁹⁶ The initiative falls within the framework of the Millennium Development Goals (MDG) whose aim is to halve global poverty by the 2015.¹⁹⁷ Mechanisms to encourage good governance have been found essential to promote an environment conducive to lasting debt sustainability and to achieve the MDG.¹⁹⁸ Good governance has been tied to debt relief since the Enhanced HIPC Initiative was agreed to in 1999, which specifies that the timing of the completion point depends upon “the country’s implementation of pre-agreed key structural reforms including the Poverty Reduction Strategy Paper (floating completion point)”.¹⁹⁹ The “topping-up” debt relief available to countries at completion point is crucial in the context of crisis prevention and resolution, to ensure that exogenous shocks do not send a country back into a debt tailspin.²⁰⁰ As James Wolfensohn, President of the World Bank, outlined in his statement to the IMF in September 2003, “work is underway to continue to align work program priorities, ensure systematic follow-up and expand support for capacity building to clients”.²⁰¹

¹⁹⁶ The World Bank, “Heavily Indebted Poor Countries Initiative,” March 2003, www.worldbank.org/hipc/hipc-review/Fact_Sheet_mar03.pdf

¹⁹⁷ Meeting of the Finance Ministers of the G7-G8 in Deauville, “G7 Finance Working Paper: Aid Effectiveness,” 17 May 2003,

“www.g8.fr/evian/english/navigation/news/news_update/meeting_of_the_finance_ministers_of_the_g7-g8_in_deauville/g7_finance_working_paper_on_aid_effectiveness.html”

¹⁹⁸ The World Bank, “OED Review of the HIPC Initiative,” 24 February 2003, www.worldbank.org/hipc/hipc-review/OED_Summary_of_HIPC_Rept.pdf

¹⁹⁹ International Monetary Fund, “Debt Relief for Low-Income Countries: The Enhanced HIPC Initiative,” 1999, www.imf.org/external/pubs/ft/pam/pam51/content.htm

²⁰⁰ The World Bank, “Heavily Indebted Poor Countries Initiative,” March 2003, www.worldbank.org/hipc/hipc-review/Fact_Sheet_mar03.pdf

²⁰¹ The International Monetary Fund, “Statement by James D. Wolfensohn, President of the World Bank Given on the Occasion of the International Monetary and Financial Committee (IMFC) Meeting,” September 21, 2003. www.imf.org/external/am/2003/imfc/state/ibrd.htm

Assessment:

Score	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada		0	
France		0	
Germany		0	
Italy		0	
Japan		0	
Russia		0	
United Kingdom		0	
United States		0	
European Union*	-1*		
Overall		0	

Individual Country Compliance Breakdown:

1. Canada: 0

Canada has partially complied with its debt commitment. Canada identified several mechanisms to encourage good governance. Canadian Finance Minister John Manley issued a statement at the World Bank and IMF joint annual discussion that stressed the IMF's surveillance role as a governance mechanism to help prevent crises and urged a continuance of this role. Canada also urged the development of an international code of conduct to guide creditor-debtor relations. Furthermore, the Canadian International Development Agency is increasingly emphasizing the importance of good governance and the ability to use aid effectively in channeling incremental resources to poor countries."²⁰²

"Topping-up" of debt relief, which falls under crisis prevention, was delegated at a G7 Finance Ministers' meeting on 20 September 2003 to the international financial institutions (IFIs). Their request was as follows: "We ask the IFIs to review the methodology for calculating the amount of "topping-up" debt relief. We look forward to the outcome of the IFIs work on low income countries vulnerabilities to exogenous shocks".²⁰³ Finance Minister John Manley emphasized that "the [crisis resolution] framework should be regarded as a work in progress" despite improvements in recent years."²⁰⁴

2. France: 0

France has partially complied with its debt commitment. France identified several mechanisms for good governance. According to French Finance Minister Jean-Claude Trichet, France identified increased IMF surveillance as a priority and encourages continued work on a Code of Conduct under the aegis of the G20, to guide the private sector and international community

²⁰² International Monetary Fund, "Statement by the Hon. John Manley at the Joint Annual Discussion," 23 September 2003, www.imf.org/external/am/2003/speeches/pr21e.pdf

²⁰³ Department of Finance Canada, "Statement of the G7 Finance Ministers and Central Bank Governors," 23 September 2003, www.fin.gc.ca/activty/G7/g7200903e.html

²⁰⁴ International Monetary Fund, "Statement by the Hon. John Manley at the Joint Annual Discussion," 23 September 2003, www.imf.org/external/am/2003/speeches/pr21e.pdf

through difficult situations or crises. Trichet notes that “additional progress is possible in various areas: analyzing public and external debt sustainability, identifying vulnerabilities of emerging countries, developing a balance sheet approach, and monitoring the stability of the financial sector”.

France’s commitment to review the methodology for calculating the amount of “topping-up” available to countries at completion point can be considered a work in progress. France supports a “more generous methodology for the calculation of the additional debt reduction at completion point”, the so called topping-up. France calls on the “international financial institutions to work on a proposal, which would link topping-up and governance, so as to combine generosity, selectivity, and efficiency of the aid provided”.²⁰⁵

3. Germany: 0

Regarding the encouragement of good governance, Germany has not complied with the commitment. In a statement by Ernst Welteke, Governor of the Fund of Germany on 23 September 2003, the need for good governance for ensuring lasting debt sustainability is acknowledged however no review or recommendations are presented.²⁰⁶

Germany’s commitment to review the methodology for calculating the amount of “topping-up” debt relief is a work in progress. This responsibility was delegated to the International Financial Institutions at the G7 Finance Ministers’ Meeting on September 20, 2003.²⁰⁷

4. Italy: 0

Italy has partially complied with this commitment. According to Italian Finance Minister Giulio Tremonti, Italy looks forward to the evaluation of the Africa Capacity Building (AFRITAC) centres by next year. These centres will enhance governance by “[providing] adequate technical assistance, by fostering ownership, enhancing accountability, and increasing responsiveness”.

The issue of reviewing the methodology for calculating “topping-up” of debt relief can be considered a work in progress. Tremonti asserted Italy’s readiness to discuss changing the methodology with the international financial institutions. Italy encouraged reaching a fair burden sharing through full creditor participation in order to “pave the way for reaching a consensus on the change of the methodology of topping-up debt relief to those countries facing an unsustainable debt situation at the completion point due to exogenous shocks”.²⁰⁸

²⁰⁵ International Monetary Fund, “Statement by the Hon. Jean-Claude Trichet at the Joint Annual Discussion,” 23 September 2003, www.imf.org/external/am/2003/speeches/pr32e.pdf

²⁰⁶ International Monetary Fund, “Statement by the Hon. Ernst Welteke, Governor of the Fund of Germany at the Joint Annual Discussion”, 23 September 2003, www.imf.org/external/am/2003/speeches/pr37e.pdf

²⁰⁷ Department of Finance Canada, “Statement of the G7 Finance Ministers and Central Bank Governors,” 23 September 2003, www.fin.gc.ca/activty/G7/g7200903e.html

²⁰⁸ International Monetary Fund, “Statement by the Hon. Giulio Tremonti at the Joint Annual Discussion,” 23 September 2003, www.imf.org/external/am/2003/speeches/pr08e.pdf

5. Japan: 0

Japan has partially complied with this commitment. At the 2003 IMF annual meetings, Toshihiko Fukui, alternate governor of the Bank and the Fund for Japan, stated that Japan is committed to continuously making active contributions in such areas as consolidation of institutional capacity and policy environment, and capacity building of the public sector to enhance good governance.²⁰⁹

Although Japan has shown its commitment to the objectives of the HIPC Initiative in its support of the G7 decision to ask the IFIs to review the methodology for calculating topping-up, Japan had not made any statements on its personal review of the methodology by September 2003.²¹⁰

At the Third Tokyo International Conference on African Development (TICAD III) in October of 2003, Japan presented some mechanisms to promote good governance. They emphasized the need for African governments to improve transparency and accountability through the strengthening of check and balance mechanisms.²¹¹ It was decided to continue the TICAD process in a more institutionalized manner, where its outcomes would be regularly followed up.²¹² However, at this conference, the issue of debt sustainability in the HIPC countries was not discussed thoroughly.

6. Russia: 0

Russia has partially complied with this commitment. On the issue of governance, the Russian Federation called on the World Bank to “continue developing more objective indicators that would complement and eventually replace an earlier generation of perception-based indicators of governance and corruption”.²¹³

In regards to the issue of methodology for calculating the amount of “topping-up” debt relief, Russia has not complied. No review or recommendations are presented. However, in a statement by the Hon. Aleksei Kudrin, Governor of the International Monetary Fund for the Russian Federation, made on 21 September 2003, the Russian Federation pledged its backing of the declarations made at the Monterrey Convention that called for a review of HIPC initiative practices.²¹⁴

²⁰⁹ International Monetary Fund, “Statement by the Hon. Toshihiko Fukui,” 23 September 2003, www.imf.org/external/am/2003/speeches/pr29e.pdf

²¹⁰ Department of Finance Canada, “Statement of the G7 Finance Ministers and Central Bank Governors,” 23 September 2003, www.fin.gc.ca/activty/G7/g7200903e.html

²¹¹ The Ministry of Foreign Affairs of Japan, “Summary by the Chair of TICAD III,” 1 October 2003, <http://www.mofa.go.jp/region/africa/ticad3/chaire-1.html>

²¹² The Ministry of Foreign Affairs of Japan, “Highlights of the Summary by the Chair of TICAD III,” www.mofa.go.jp/region/ticad3/chaire-2.html

²¹³ International Monetary Fund, “Statement by the Hon Aleksei Kudrin, Governor of the International Monetary Fund for the Russian Federation at the Joint Annual Discussion”, 23 September 2003, www.imf.org/external/am/2003/speeches/pr28e.pdf

²¹⁴ International Monetary Fund, “Statement by the Hon Aleksei Kudrin, Governor of the International Monetary Fund for the Russian Federation at the Joint Annual Discussion”, 23 September 2003, www.imf.org/external/am/2003/speeches/pr28e.pdf

It must be noted that the dialogue of the Russian Federation was limited by the fact that much emphasis was placed on the Russian Federation's own debt problem.

7. United Kingdom: 0

On the issue of governance, the UK has complied with this commitment. Rt. Hon. Gordon Brown, the Governor of the Fund of the UK, recommended the International Finance Facility (IFF) as a mechanism for encouraging good governance: "In seeking more favourable environments in which private sector investment can be more productive in developing countries, country-owned poverty reduction strategies have correctly focused on creating the right domestic conditions for investment, including good governance and sound legal processes that deter corruption; improved infrastructure; and an educated and healthy workforce. We support the creation of investment forums bringing public and private sectors together to examine the barriers to investment and how to secure higher levels".²¹⁵ The IFF serves as such a forum.

On the issue of reviewing the methodology for calculating the "topping-up" debt relief, the UK has partially complied. In a statement by Rt. Hon. Gordon Brown of the United Kingdom made on 21 September 2003, the United Kingdom gave official reaffirmation of the commitment. They also recommended and pledged a financial contribution towards the IMF and World Bank assuring the full commitment of creditor countries as a possible mechanism for increasing the total debt relief available.²¹⁶

8. United States: 0

The United States has partially complied with its commitment to review mechanisms for encouraging good governance. To ensure good governance, President Bush's Millennium Challenge Account ties assistance through a system incorporating the principles of free trade, free capital flows, and market-based exchange rates among the major economies. They are currently pressing the IMF to fully disclose the performance rating system used to allocate resources to the poorest countries and believes it should conduct an external performance audit of the IDA-13 results commitment, to which the US has tied its incentive contribution.

Although the United States has shown its commitment to the objectives of the HIPC Initiative and reviewing the methodology to calculate topping up of debt relief under the framework of the G7 ministerial meeting²¹⁷, to date, it has not made any concrete statements of its own.²¹⁸

²¹⁵ International Monetary Fund, "Statement by Rt Hon Gordon Brown, United Kingdom International Monetary and Financial Committee", 21 September 2003, www.imf.org/external/am/2003/imfc/state/gbr.htm.

²¹⁶ International Monetary Fund, "Statement by Rt Hon Gordon Brown, United Kingdom International Monetary and Financial Committee", 21 September 2003, www.imf.org/external/am/2003/imfc/state/gbr.htm

²¹⁷ Department of Finance Canada, "Statement of the G7 Finance Ministers and Central Bank Governors," 23 September 2003, www.fin.gc.ca/activty/G7/g7200903e.html

²¹⁸ International Monetary Fund, "Statement by the Hon. John W. Snow," 23 September 2003, www.imf.org/external/am/2003/speeches/pr17e.pdf.

9. European Union: –1*

The European Union has not taken any initiatives towards acknowledging or complying with the commitment made. The European Union did not send representation to the September 2003 annual meeting of the Board of governors of the IMF. According to the World Bank, the European Union however is focusing on regional and bilateral agreements and incentives with Highly Indebted Poor Countries.²¹⁹ The World Bank acknowledges the European Union's unilateral approach to providing special assistance to indebted countries, notably Iraq in 2003.²²⁰

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²¹⁹ Meeting Between ACP, World Bank and IMF on Trade, HIPC and Debt Sustainability Brussels, 24 April 2003, [wbln0018.worldbank.org/EURVP/web.nsf/\(\\$All\)/F847C8116362B0F6C1256D1A002C70A7](http://wbln0018.worldbank.org/EURVP/web.nsf/($All)/F847C8116362B0F6C1256D1A002C70A7).

²²⁰ World Bank, Annual Report 2003, "Special Assistance in Fiscal 2003: Accelerated Debt Relief", www.worldbank.org/annualreport/2003/special_assistance.html.