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 (final press conference)251

Background

Launched by the IMF and the World Bank in 1996, the Highly Indebted Poor Countries (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.252 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 debt relief.253 Thusly, debt relief would only become available to a limited number of countries, and at slow rates. In preparations for the 1999 Cologne Summit, the G8 Finance Ministers expressed concern about the “vulnerability of many HIPCs 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.”254 Cognizant that the mounting debt stocks of the developing countries are hindrances to economic growth and sustainable development, the G8, at Cologne, 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.”255 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.256 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 HIPCs states achieve the framework of the UN Millennium Development Goals. On 8 July 2005, the G8 announced that it would cancel 100% of the debts held by 18 eligible HIPC countries, all of which are in Africa.257 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 fight against global poverty.258

Team Leader: Susan Khazaeli

Assessment

<table>
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<th>Country</th>
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<th>Work in Progress (0)</th>
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Individual Country Compliance Breakdown

1. Canada: 0

The Canadian government is making progress towards fulfilling its commitment on African debt relief. Canada supports the G8 proposal for 100% debt cancellations for eligible HIPC. In an address to the IMF’s Monetary and Financial Committee, Finance Minister Ralph Goodale called on the IMF to fulfil “its core competency of helping countries achieve macroeconomic stability through policy advice, capacity building, and, when necessary, financial assistance”. The Canadian government announced that it would increase its contribution to IDA14 by 40% in order to finance the regular IDA window, IDA grants and HIPC debt relief, prompting the IDA to also increase its financial support for developing countries.

In addition to supporting the HIPC Initiative in deputations to the IMF, the Canadian government also encourages bilateral debt relief through the Paris Club. In an effort to help low-income, heavily indebted countries reduce poverty and achieve the Millennium Development Goals (MDGs), the Canadian government announced on 24 September 2005, that it would pledge an additional CAD$1.3 billion toward debt relief. Canada has long linked debt relief and aid to good governance: A Canadian representative was sent as an observer in the reorganization of Nigeria’s debt at the Paris Club meeting, which applauded Nigeria’s economic reforms and progress.

Analyst: Susan Khazaei

2. France: 0

France is making strong progress towards fulfilling its G8 commitment on African debt relief. In late October 2005, the French government agreed that it would relieve Nigeria of 60% of its debt to the Paris Club creditors, which including moratorium interest amounts to approximately US$30 billion. Finance

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Minister, Mr. Thierry Breton, also reaffirmed France's dedication to the HIPC debt relief initiative when he joined other G8 finance ministers in drafting a letter to World Bank President. In the letter, Mr. Breton explicitly stated that France would "cover its share of the costs for the full duration of the cancelled loans" and that it would "seek in 2005 Parliamentary appropriations for commitment for the financial compensation for the lost reflows covering the period to 2015". The French government was also successful in promoting the debt relief initiative to the IMF, which announced that it would offer 100% debt cancellation to 19 eligible HIPCs (many of them from Africa) by early 2006. Lastly, on 29 December 2005, the French government gave Zambia a debt write-off of €67 million following the country's successful reform of fiscal and monetary policies.

Analyst: Tiffany Kizito

3. Germany: 0

Germany registered partial compliance with the specific commitments agreed upon at the 2005 Gleneagles Summit, participating in a large debt relief agreement through the Paris Club which purports to cancel an estimated 60% of Nigeria's debt and, mobilizing nearly 20% of the gross total of its own ODA budget for debt relief. At the annual meeting of the World Bank and IMF, Development Minister, Ms. Heidemarie Wieczorek-Zeul, declared: "The further debt relief envisaged by the G8 in Gleneagles for the poorest developing countries must now be implemented speedily." After discussing the "financial shortfalls" that might accompany debt reduction, Ms. Wieczorek-Zeul announced Germany's decision to provide €120 million over the next three years to a plan designed to compensate for the deficiencies.

The German government reaffirmed its commitment to the HIPC Initiative. On 24 September 2005, Minister of Finance Hans Eichel stated that, "Although the Fund’s debt relief should be financed primarily by its own resources, Germany and other G8 countries stand ready to provide bilateral contributions as necessary." On 8 December 2005, Germany, along with the other IMF Executives approved the G8 plan of 100% debt relief for all eligible HIPCs; renamed the Multilateral Debt Relief Initiative (MDRI). Shortly thereafter, IMF Managing Director Rodrigo de Rato revealed that 19 eligible countries – including 13 from Africa, had qualified for immediate debt relief, available in early January 2006. Further action must be taken by the German government in order to achieve full compliance.

Analyst: Alex Turner
4. Italy: 0

The Italian government has been slow in implementing its commitments regarding debt relief. While Italian Minister for Foreign Affairs, Mr. Gianfranco Fini, met with his South African counterpart, Mr. Nkosazana Dlamini Zuma, who praised Italy’s commitment to the HIPC initiative, the Italian government has thus far not been active in the promotion of the initiative to cancel the debt stocks of eligible HIPCs. Positive action in support of the Gleneagles debt-cancellation proposal includes Italy’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 USD$18 billion in debt relief.

Analyst: Nina Popovic

5. Japan: 0

Japan partially complied with the commitments set out at Gleneagles, participating in a multinational effort to reduce an estimated 60% of Nigeria’s debt to the Paris Club creditors. On 24 September 2005, Mr. Sadakazu Tanigaki, Governor of the Bank and Fund for Japan, encouraged other non-G8 countries to support the HIPC Initiative, saying “The enhanced HIPC Initiative, to which Japan has made the largest contribution as an official bilateral creditor, continues to be effective, while we have to maintain our efforts to encourage non-Paris Club and private creditors to participate in the Initiative”. Japan holds a Director position on the IMF Executive Board and supports the full debt cancellation of all eligible HIPCs. On 21 December 2005, thirteen African countries became beneficiaries of immediate debt relief, to be made available in January 2006. In addition to offering debt relief through the IMF, the Japanese government cancelled Zambia’s debt of USD$692 million. Japan has taken significant steps on debt relief in order to achieve compliance.

Analyst: Alex Turner

6. Russia: 0

The Russian government has taken several measures in support of the HIPC Initiative pertaining to African debt relief. In deputations to the IMF and the World Bank, Finance Minister Aleksei Kudrin encouraged the Gleneagles proposal for debt cancellation. Arguing that such actions would not undermine the integrity of either financial institution, Mr. Kudrin called “on all Fund and Bank members to support the G-8 proposal for a full cancellation of the debt owed to international financial institutions by the countries beneficiaries of the HIPC Initiative.” The Russian government has also demonstrated

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support for increased aid for development, growth, and infrastructure in order to help African states achieve the MDGs. Since the annual IMF Boards of Governors meeting, which was held in late September 2005, the Russian government has moved to implement two multilateral debt relief programs with both the Paris Club and the IMF. On 20 October 2005, Russia was a signatory to a USD$18 billion Paris Club debt cancellation plan for Nigeria. Shortly thereafter, the Russian government welcomed the IMF announcement that it would cancel the debts of 19 HIPCs, totalling an estimated USD$3.3 billion.

Analyst: Eugene Berezovsky

7. United Kingdom: 0

As host of the 2005 Gleneagles Summit, the United Kingdom demonstrated strong support for the African debt relief initiative. The Department for International Development called on both the IMF and the World Bank to “assist the world’s poorest countries to meet the MDGs while ensuring that debt burdens remain sustainable.” In order to secure the participation of the aforementioned international financial institutions in the HIPC initiative, the British government pledged USD$476 million. On 20 October 2005, the British government worked alongside other G8 countries to broker a USD$18 billion Paris Club debt relief package for Nigeria. Shortly thereafter, on 21 December 2005, the British government welcomed the IMF’s announcement that it would forgive the USD$3.3 billion debts of 19 HIPCs. In addition to the cancellation of all bilateral debts owed by eligible HIPCs, the British government committed to mobilizing an estimated USD$2.2 billion of debt relief in support of the HIPC initiative.

Analyst: Eugene Berezovsky

8. United States: 0

The American government is making progress towards fulfilling its Gleneagles commitment on African debt relief. Treasury Secretary, Mr. John Snow, endorsed the HIPC Initiative by appealing to the World Bank President to cancel the arrears of eligible indebted countries. In a G8 Finance Ministers’ letter drafted to Mr. Paul Wolfowitz, Mr. Snow stated that since the Gleneagles Summit, “the US Administration has provided clear support for a Congressional bill that would approve the debt relief initiative and to authorize “such sums as may be necessary for payment” for the full duration of the cancelled loans.”

In late October 2005, the American government agreed that it would relieve Nigeria of 60% of its debt to the Paris Club creditors, which is estimated at USD$18 billion. In addition, the US worked alongside...

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other G8 governments in encouraging the IMF and its concessional arm, the IDA, to cancel the US$3.3 billion debts of 19 eligible HIPCs. Finally, on 30 December 2005, the United States government cancelled Zambia’s debt of US$280 million.

Analyst: Tiffany Kizito

9. European Union: 0

The European Union is on track to achieve compliance with regard to the African debt relief initiative to which it agreed at Gleneagles. The European Union has reaffirmed the existing “need for broader and deeper debt relief”. It recently adopted a new proposal for an “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. However, further action on the part of the European Union is necessary for full compliance.

Analyst: Nina Popovic

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