2003 Evian Final 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

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, and represented an important step forward in placing debt relief within an overall framework of poverty reduction.[157] A major review of the program in 1999 resulted in significant enhancements of the original framework, and the establishment of the Poverty Reduction and Growth facility, which outlined pre-agreed structural reforms a program candidate must adhere to in order to qualify.[158] Since that time, good governance has been tied to debt relief.[159] The topping-up of debt relief available to countries at completion point is crucial to ensure that a country remains resistant to exogenous shocks.[160] The HIPC Initiative is a program designed under the framework of the UN Millennium Development Goals and its central objective is the propagation of sustainable development. James Wolfensohn, President of the World Bank, describes the 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."[161]

Assessment

Score	Lack of Compliance –1	Work in Progress 0	Full Compliance +1
Canada			+1
France			+1
Germany		0	
Italy		0	
Japan		0	
Russia		0	
United Kingdom			+1
United States		0	
European Union		0	
Overall			+0.38

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[157] World Bank, "The HIPC Debt Initiative", September 2002, www.worldbank.org/hipc/about/hipcbr/hipcbr.htm.
[158] International Monetary Fund, "Poverty Reduction and Growth Facility Fact Sheet", www.imf.org/external/np/exr/facts/prgf.htm.
[159] World Bank, "The HIPC Debt Initiative", September 2002, www.worldbank.org/hipc/about/hipcbr/hipcbr.htm.
[160] World Bank, "Heavily Indebted Poor Countries Initiative", March 2003, www.worldbank.org/hipc/hipc-review/Fact_Sheet_mar03.pdf.
[161] Wolfensohn, James D., "The HIPC Debt Initiative", September 2002, www.worldbank.org/hipc/about/hipcbr/hipcbr.htm.

Individual Country Compliance Breakdown

1. Canada: +1

Since the September 2003 Finance Ministers' meeting in Dubai, Canada has continued to place the onus of "topping-up" of debt relief on the IMF. In a statement to the IMF on April 24, 2004 the Honourable Ralph Goodale, Canadian Minister of Finance urged "the Fund to provide generous debt relief — including full topping up when warranted — in order to ensure that these countries have a better chance to achieve a lasting exit from unsustainable debt."[162]

Canada addressed governance issues by proposing a strengthened country-led IMF surveillance mechanism that would assist HIPC participants on the domestic front to "anchor political leadership".[163] This country-led surveillance mechanism was recommended to allow countries access to the IMF as a guide and monitor of good governance.[164]

2. France: +1

On the matter of the promotion of good governance, France echoed the declaration of the G8 Summit in Evian, which included "provisions to promote effective regulation, transparent corporate governance practice, and entrepreneurial conduct imbued with social and environmental concerns."[165] Increased international financial transparency is recommended by France through the appointment of the World Bank as "a trusted third party to certify the actual existence of the given financial flows."[166] Through increased international financial transparency, HIPC Initiative participants would be less vulnerable to exogenous shocks.

France has complied with this debt commitment. In a statement by Mr. Nicolas Sarkozy, Minister of the Economy of France on April 24, 2004, France agreed that additional "topping-up" of debt relief to countries at completion point serves as an opportunity to restore debt sustainability in the long-run and proposes a "financing policy adapted to the situation of each country" past completion point "based upon the quality of its policies and its vulnerability to shocks."[167] This policy would then allow the IMF "to establish in coordination with other donors, a tolerable ceiling for loan financing and to deduce from it the volume of grants needed to cover the financing required to achieve the Millenium Development Goals."[168] France specified coordination among bilateral and multilateral donors as a necessary measure for the achievement of these goals.[169]

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[162] International Monetary Fund, "Statement by the Honourable Ralph Goodale, Minister of Finance of Canada", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/cane.pdf.
[163] Ibid.
[164] Ibid.
[165] International Monetary Fund, "Statement by Mr. Nicolas Sarkozy, Ministre d'Etat, Minister of the Economy, Finance, and Industry of France", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/frae.pdf.
[166] Ibid.
[167] Ibid.
[168] Ibid.
[169] Ibid.

3. Germany: 0

Regarding the encouragement of good governance, Germany has not made any recommendations for mechanisms to encourage good governance, however good governance was stressed as an essential component for the completion of the HIPC Initiative.[170]

On the matter of topping-up of debt relief, Germany has fully complied. In a statement issued on April 24, 2004 by Hans Eichel, Minister of Finance for Germany, Germany pledges to "continue to relieve debt of the eligible countries [those at completion point] in total worth over 6 billion Euros and to raise debt relief adopted by the Paris Club for these countries to 100%."[171] In addition, Germany continues to echo its September 2003 commitment to the review of the methodology for "topping-up" of debt relief through the IMF.

4. Italy: 0

Italy has partially complied with this commitment. On the matter of the "topping-up" of debt relief, Giulio Tremonti, Minister of the Economy and Finance for Italy, asserts the role of the IMF as the primary institution involved in the support of Low Income Countries to achieve the Millenium Development goals and welcomes the refinement of "the Fund's instruments and financing."[172] In line with the review of the IMF's financing tools, Italy proposes the consideration of "additional bilateral resources" for topping-up.[173]

5. Japan: 0

Japan has shown its commitment to the objectives of the HIPC Initiative in its support of the G7 decision to ask the IFI's to review the methodology for calculating topping-up of debt relief in September of 2003.[174] However, in a statement to the IMF by H.E. Sadakazu Tanigaki, Minister of Finance for Japan on April 24, 2004, Japan called for a re-evaluation of the role of the IMF in providing long-term debt relief programs.[175] Japan places the obligation of long term financial assistance on the lending banks and stresses that the objective of the IMF is to respond to countries' temporary balance of payment needs.[176]

6. United Kingdom: +1

In a statement by the Rt. Hon. Gordon Brown, Minister of Finance for the United Kingdom on April 24, 2004, the UK echoes the proposal it made at the Finance Ministers' meeting in Dubai in September 2003. This proposal called for the creation of an International Finance Facility

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[170] International Monetary Fund, "Statement by Mr. Hans Eichel, Minister of Finance of the Federal Republic of Germany", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/deue.pdf.
[171] Ibid.
[172] International Monetary Fund, "Statement by the Honourable Giulio Tremonti, Minister of the Economy and Finance for Italy", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/itae.pdf.
[173] Ibid.
[174] International Monetary Fund, "Statement by the Hon. Toshihiko Fukui", 23 September 2003, www.imf.org/external/am/2003/speeches/pr29e.pdf.
[175] International Monetary Fund, "Statement by H.E. Sadakazu Tanigaki, Minister of Finance of Japan". 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/jpne.pdf.
[176] Ibid.

(IFF) that would serve as an investment forum, encourage good governance, and increase donor commitments to the HIPC Initiative: "I ask all governments…to look seriously at our proposal for the International Finance Facility. The IFF is founded upon long-term, binding donor commitments from the richest countries. It builds upon the additional $16 billion already pledged at Monterrey and it leverages additional money from the international capital markets to raise the amount of development aid for the years to 2015 from $50 billion per year to $100 billion per year."[177]

In the same statement, Rt. Hon. Gordon Brown addresses the matter of topping-up of debt relief and urges the IMF and the World Bank to "make more progress on debt".[178] The UK recommends the topping-up of debt relief through "aid in the form of grants".[179]

7. Russia: 0

Regarding the matter of topping-up of debt relief, Aleksei Kudrin, Finance Minister of the Russian Federation speaks out against such practice and expresses his concern that "recent discussions of external shocks and topping-up have increasingly served as a substitute for difficult solutions concerning the links between sound economic policies, debt sustainability, and responsible lending to LIC's [Low Income Countries] on the part of international financial institutions."[180] Instead, Russia places the obligation on low-income countries themselves to pursue sound economic strategies and to resolve the domestic roots of their international debt problems. In a statement to the IMF on April 24, 2004, Aleksei Kudrin states: "We believe that the HIPC Initiative and the new strategy to ensure external debt sustainability are only tools and do not guarantee that LDCs will be able to resolve successfully their debt problems. There the main responsibility lies with the LDCs themselves, which should pursue a sensible strategy of attracting new financing and adhere to a responsible growth-oriented economic policy."[181]

On the matter of the encouragement of good governance, Russia urges the IMF to "improve its analysis of economic growth factors such as implementation of structural reforms, strengthening institutions of governance, and investment of infrastructure development."[182] Strengthening the institutions of governance would serve as a mechanism for the IMF to reduce the vulnerability of LDCs to exogenous shocks.[183] Finally, Russia stresses the importance of the presence of economic growth, as it is conducive to the resolution of the debt problem.[184]

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[177] International Monetary Fund, "Statement by the Honourable Gordon Brown, Minister of Finance of the United Kingdom", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/GBRe.pdf.
[178] Ibid.
[179] Ibid.
[180] International Monetary Fund, "Statement by Mr. Aleksei Kudrin, Minister of Finance of the Russian Federation", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/RUSe.pdf.
[181] Ibid.
[182] Ibid.
[183] Ibid.
[184] Ibid.

8. United States: 0

In a statement to the IMF on April 24, 2004, the Hon. John Snow, Secretary of the Treasury of the United States of America called for a reassessment of the role of the IMF in low-income countries. While the United States welcomed the HIPC Initiative and agreed that "HIPC debt reduction provides lasting relief aimed at helping countries achieve debt sustainability", the US declared that such programs do not serve as an exit strategy from IMF borrowing.[185] Instead, the United States declared that the IMF should provide "financial assistance to its poor country members with balance of payments needs" and that development provisions should "come from the development banks and bilateral donors, not the IMF".[186] Instead of offering recommendations for the current HIPC Initiative, the United States proposed the complete re-evaluation of the program and the of the IMF's role in low-income countries.

9. European Union: 0

In a statement to the IMF on April 24, 2004, Charlie McCreevy, Chairman of the EU Council of Economic and Finance Ministers, addressed all HIPC Initiative creditor and donor nations and urged them "to provide their share of bilateral debt relief and multilateral financing to the initiative."[187] The E.U. stressed that "the full financing of the HIPC Initiative is necessary to provide HIPC debt relief to all entitled countries, including appropriate topping up at completion point."[188] While no recommendations for good governance and methodology for calculating the topping up of debt relief were made, the EU did emphasize that full donor country participation was necessary in order for the program to succeed.

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[185] International Monetary Fund, "Statement by the Honourable John Snow, Secretary of the Treasury of the United States of America", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/usae.pdf.
[186] Ibid.
[187] International Monetary Fund, "Statement by Mr. Charlie McCreevy, Minister for Finance of Ireland and Governor of the IMF in his capacity as Chairman of the EU Council of Economic and Finance Ministers", 24 April 2004, www.imf.org/External/spring/2004/imfc/statem/eng/EUe.pdf.
[188] Ibid.