13. Africa: Debt Relief [226]

Commitment

“ensuring the full implementation and financing of the Multilateral Debt Relief Initiative (MDRI) according to our commitments made at Gleneagles and on a fair burden-share basis, and preserving long-term debt sustainability through the implementation of the IMF/World Bank debt sustainability framework for low-income countries.”

Update on Africa

Background

At the July 2005 G8 Summit in Gleneagles, Scotland, G8 leaders pledged to “cancel 100% of outstanding debts of eligible Heavily Indebted Poor Countries to the IMF, IDA and African Development Fund, and to provide additional resources to ensure that the financing capacity of the IFIs is not reduced, as set out in the statement of 11 June.” The G8 Proposal for Debt Relief, renamed the Multilateral Debt Relief Initiative (MDRI) provides for 100% relief on eligible debt from three multilateral institutions – the International Monetary Fund, World Bank (International Development Association), and the African Development Fund. MDRI supplements the 1996 Initiative for Heavily Indebted Poor Countries (HIPC Initiative) by granting 100% relief for those countries completing the HIPC Initiative process. MDRI is seen as a supplementary initiative that would assist low-income countries to meet the United Nations Millennium Development Goals.

At the G8 Summit in St. Petersburg, G8 leaders affirmed their support for long-term debt sustainability through the IMF and World Bank debt sustainability framework for low-income countries. This framework (officially titled the Debt Sustainability Framework in Low-Income Countries) was implemented by the World Bank and International Monetary Fund in the spring of 2005.

Debt sustainability is the ability to manage debts so they do not grow. Many low-income countries have struggled to maintain their external debt at sustainable levels while trying to meet development objectives. The goal of the Debt Sustainability Framework in Low-Income Countries is to provide guidance on new lending to low-income countries whose main source of financing is official loans. The framework has been developed with the intention to better monitor and prevent the accumulation of unsustainable debt.

Team Leader: Samreen Beg

Assessment

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Canada: +1

Following the St. Petersburg Summit in July 2006, Canada has worked towards fulfilling its St. Petersburg commitment to debt relief and sustainability through the MDRI and DSF. Canada has identified a schedule for the financing of the MDRI, and has allocated specific funds to all three MDRI institutions. Minister of Finance Jim Flaherty announced in a statement for the Development Committee of the Boards of Governors of the World Bank and International Monetary Fund on 18 September 2006, that Canada had already paid its share of MDRI costs to the IMF. He further announced that Canada would begin making its payments to the IDA and AfDB. According to Supplementary Document to the Department of Finance's 2006-07 Report on Plans and Priorities, these payments should be made before the end of the 2006 Fiscal Year in March 2007. Flaherty further emphasized that Canada "is committed to maintaining the financing capacities of the IMF, IDA, and the AfDB as these institutions implement the MDRI."

On the issue of debt sustainability, Flaherty stated in the same statement that although "Canada [is a] strong supporter of the ongoing work to address unsustainable debt burdens," more should be done to break the 'lend-and-forgive' cycle that can lead to the accumulation of debts. Flaherty announced that Canada is firmly committed to lobbying for a review of the World Bank-IMF DSF to work towards better planning for long-term debt sustainability. In October, Canada worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi that would contribute to restoring the country's debt sustainability, worth USD137 million in nominal terms.

In addition to its commitment to the World Bank-IMF DSF and the MDRI, Canada continues to act through its Debt Initiative to forgive the debts of heavily indebted poor countries. On 18 July 2006, the Canadian government announced that it would forgive CAD221 million in debt owed by the Republic of Cameroon. Cameroon is the twelfth country to meet all of the debt relief requirements under the Canadian Debt Initiative, which will forgive more than CAD1.1 billion once all eligible countries have completed the process.

Analyst: Catherine Kunz

France: 0

France has partially complied with its St. Petersburg commitment to debt relief and sustainability. While it remains committed to the MDRI and to addressing debt issues particularly in Africa, France only expressed general support for the principles of debt sustainability and has not yet articulated how it will further implement the DSF. Minister for the Economy, Finance and Industry, Thierry Breton, did however announce, in a statement to the Development Committee of the IMF and the World Bank in September 2006, that "strengthening the debt sustainability analysis framework [of the World Bank-IMF DSF] will be on our common agenda during the coming weeks and months." How France will contribute to strengthening this framework is unclear.

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France worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi, worth USD137 million in nominal terms.\(^6\) In November, the French government provided a “bridge” loan to the Central African Republic to clear its arrears with the World Bank and restore its ties with international donors.\(^6\)

**Analyst:** Catherine Kunz

**Germany: +1**

Germany achieved compliance with its St. Petersburg commitment to ensure the implementation of the MDR1 and the DSF. Germany reaffirmed its commitment to the MDR1 and particularly its support for debt relief in Africa, pledged funds for debt relief through its involvement in the Paris Club, and expressed its support for the IMF and World Bank’s review of the DSF.

On 17 September 2006, at a meeting of the IMF’s International Monetary and Finance Committee, German Finance Minister Peer Steinbruck announced that Germany was committed to contributing funds to the HIPC initiative according to the terms of implementation of the Multilateral Debt Relief Initiative.\(^6\) Furthermore, on 18 October 2006, German chancellor Angela Merkel pledged to use Germany’s G8 and EU presidencies in 2007 to refocus the terms of debt relief in Africa stating that Berlin was “keen” on ensuring that the promises made by developed countries at Gleneagles of greater aid and debt relief are kept.\(^6\) In addition, Germany worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi, worth USD137 million in nominal terms.\(^6\) On 9 November 2006, Germany announced its participation in the cancellation of 559 billion CFA francs of Cameroon’s debt in conjunction with the loan assistance plan of the Paris Club.\(^6\) This agreement was finalized within the week in Germany. On 18 December 2006 German Foreign Minister Heidemarie Wieczorek-Zeul reaffirmed that the German government is upholding its commitment to increase the current level of development aid from 0.36 percent of the national GDP to 0.51 percent by the year 2010.\(^6\) On 26 December 2006, Wieczorek-Zeul stated that “Africa is where the decision will be made on whether poverty reduction can be achieved,” reiterating Germany’s pledge to focus on the conditions of African development.\(^6\)

Germany has also demonstrated its support for the Debt Sustainability Framework. In the same 17 September 2006 statement, Steinbruck pledged Germany’s future conjoined effort with the IMF and World Bank on the review of the Debt Sustainability Framework.\(^6\)

**Analyst:** Charlotte Freeman Shaw

**Italy: 0**

Italy has demonstrated partial compliance with its St. Petersburg commitment on debt relief and sustainability. On 17 September 2006, Italy’s Minister of Economy and Finance Tommaso Padoa-Schioppa confirmed the republic’s decision to support the IMF’s initiatives in low-income countries and the implementation of the sunset-clause in conjunction with the HIPC initiative by the end of 2006.\(^6\) Furthermore, as a member of the Paris Club Italy engaged in the cancellation of debt on 19 October

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\(^6\) Germany to Cancel $1 billion Cameroon Debt, Reuters, (Yaounde), 9 November 2006. Date of Access: 9 November 2006.

\(^6\) NGOs Demand Much From Germany as EU President, Deutsche Welle, 18 December 2006. Date of Access: 18 December 2006. www.dw-world.de/dw/article/0,2144,2269439,00.html.

\(^6\) France worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi, worth USD137 million in nominal terms.\(^6\) In November, the French government provided a “bridge” loan to the Central African Republic to clear its arrears with the World Bank and restore its ties with international donors.\(^6\)
200 with USD137 million dollars going to restore Malawi’s debt sustainability.\(^{627}\) Italy has yet to articulate through legislative acts, a more specific and long-term timeline for how it will finance the MDRI since agreeing to replenish the IDA and AfDB in the early years of a longer term compensatory financing scheme.\(^{628}\)

Likewise, Padoa-Schioppa reaffirmed Italy’s support of the Debt Sustainability Framework (DSF), stating that the republic believes that the implementation of the DSF is crucial to successfully avoid future debt accumulation and will also be of paramount importance in achieving the Millennium Development Goals.\(^{629}\) How Italy will contribute to strengthening this framework beyond its support for its principles is unclear.

**Analyst: Charlotte Freeman Shaw**

### Japan: 0

Japan has not yet fully complied with its commitment to implement the MDRI and the DSF for Low-Income Countries.

Beginning 21 July 2006, Japan provided debt relief to four countries qualifying for debt relief under the MDRI. Debt relief totaling JPY190, 380 million was provided to Cameroon, Ethiopia, Ghana, and Mozambique.\(^{630}\) In addition, Japan worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi, worth USD137 million in nominal terms.\(^{631}\) On 18 September 2006, Hideki Ito, Deputy Director-General of the Economic Affairs Bureau, stated that Japan welcomes the implementation of the Multilateral Debt Relief Initiatives introduced by IMF, IDA and AfDB, and “intends to act on them promptly, staying with them until they are fully carried out.”\(^{632}\)

A statement released by Toshihiko Fukui, Governor for the Bank of Japan to the International Monetary and Financial Committee of Board of Governors on 18 September 2006, expressed Japan’s support for the DSF.\(^{633}\) While Japan reaffirmed its intention to implement this commitment and provided debt relief to multiple countries, it has not yet fully articulated how it will implement the Debt Sustainability Framework beyond its general support for its principles.\(^{634}\)

**Analyst: Adrianna Kardyunal**

### Russia: 0

Russia partially complied with its St. Petersburg commitment for debt relief and sustainability through significant support for the MDRI program.\(^{635}\) As of 2007, 8 of the 22 MDRI countries are Russian debtors.\(^{636}\) Sergei Lavrov, the Minister of Foreign Affairs of the Russian Federation, reported on 21 September 2006 that, "Russia has written off or has undertaken to write off USD11.3 billion of the African countries' debt, including USD2.2 billion within the HIPC Debt Initiative. New steps are planned in this area. Russia ranks third in absolute figures of debt relief, and first in terms of the debt relief/GDP ratio."\(^{637}\)

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The government also expressed its commitment to continue its practice of total sum cancellation for the remaining poorest countries. On 18 September 2006, Russian representative at the United Nations, Nikolai Chulkov confirmed that, "Russia participated actively in the World Bank and IMF programmes to cancel the debt owed by HIPC members." However, there has been no evidence that Russia has supported the World Bank-IMF Debt Sustainability Framework for low-income countries.

**United Kingdom: +1**

The United Kingdom has complied with its St. Petersburg commitment on debt relief and sustainability. Although the UK remains active in a wide range of debt-relief related activities instituted prior to the St. Petersburg Summit, it has reiterated its strong commitment to implementing and financing the MDRI and the World Bank-IMF DSF.

In a statement in September 2006 to the World Bank and IMF Boards of Governors, Secretary of State for International Development Hilary Benn and Chancellor of the Exchequer Gordon Brown says that the United Kingdom "remain[s] completely committed to the full implementation and financing of the HIPC and the MDRI [...] The UK will play its full part, assisting countries through our bilateral programmes, and providing continued financing to the HIPC Trust Fund and to meet our financing commitments to the MDRI." By the end of 2006, the UK had contributed a total of approximately GBP26 million in additional contributions to the IDA to offset IDA reduced debt service receipts under the MDRI.

Benn and Brown further stated in the September statement that the UK will continue to pay its share of the debt service owed to the World Bank and African Development Bank, and continue to work with the World Bank and the IMF in disseminating the DSF to all official creditors, including export credit agencies, to guide their lending decisions. On 19 October 2006, the United Kingdom worked alongside other G8 countries to broker a Paris Club debt relief package for Malawi, worth USD137 million in nominal terms. Most creditors, the UK included, also committed on a bilateral basis to grant additional debt relief of USD217 million in nominal terms.

**United States: 0**

The United States registered partial compliance with St. Petersburg’s African Debt Relief commitments. It launched new initiatives involving debt restructuring and relief and redoubling efforts to fulfill previous promises. The *Budget of the United States Government, Fiscal Year 2007* contains a number of references to debt relief. The United States provided 100% bilateral debt relief to HIPC countries under the enhanced HIPC initiative. The 2007 Budget request fully supports the U.S. share of the multilateral debt forgiveness provided by the G8 proposal. The budget proposal would...
also allow the United States to complete the funding for the Democratic Republic of the Congo under enhanced HIPC.\textsuperscript{646}

On the issue of debt sustainability, Henry Paulson Jr., Secretary of the Treasury for the United States stated in a September statement to the Boards of Governors of the World Bank and IMF, that while the work done thus far on the DSF is notable, “further improvements are essential to develop a framework that constrains the pace of new borrowing.” Paulson notes that this is an “urgent task that requires [the United States and international financial institutions] joint attention.”\textsuperscript{647}

**Analyst: Erin Fitzgerald**

**European Union: 0**

The European Union has displayed partial compliance with the debt relief commitments established at Gleneagles and reaffirmed at St. Petersburg.

On 18 October, 2006, German chancellor Angela Merkel pledged that Germany - which is to hold the presidency of both the European Union and the G8 as of 2007 – would make African debt relief a priority for the year.\textsuperscript{648} On 14 November, 2006, World Bank President Paul Wolfowitz met with members of the European Parliament (MEPs) where MEP Mauro Zani of Italy called on the World Bank to play a more intense role on debt reduction, while other MEPs asked Wolfowitz whether the World Bank was prepared to forgive “illegitimate debts” amassed from loans to dictatorships and regimes practicing bad governance (such as Liberia and Rwanda).\textsuperscript{649} The end of November saw fifty African and EU ministers gather in Tripoli for the first EU-Africa Ministerial Conference on Migration and Development.\textsuperscript{650} The Conference paved the way for the joint Africa-EU declaration that emphasized the commitment of the EU to collectively increase its official development assistance to 0.56% of GNI by 2010 and 0.7% by 2015, with at least 50% of this allocated to Africa.\textsuperscript{651}

EU debt relief is provided through the European Investment Bank and also through a Heavily Indebted Poor Countries’ (HIPC) trust fund helping multilateral banks provide debt relief.\textsuperscript{652} In December 2006, Sierra Leone qualified for debt relief worth USD994 million under the HIPC Initiative, and a further USD610 million under the Multilateral Debt Relief Initiative (MDRI).\textsuperscript{653} While the EU has surpassed its goal to contribute 0.39% of GNI by 2006 for official development assistance, it is unclear how much of this includes debt relief.\textsuperscript{654} On 1 December 2006, Jarl-Åhakan Rosengren, Minister Counsellor of the Permanent Mission of Finland (which held the EU presidency for the second half of 2006) stated that the European Union provided the “lion’s share of debt relief to the world’s poorest countries” but failed to outline a precise figure.\textsuperscript{655} Also in December, the European Union released the Joint Progress Report on the implementation of the EU Strategy for Africa; however, nowhere did the report cite a figure for debt relief, although it did reaffirm the GNI commitments for 2010 (mentioned above). The World Bank-IMF DSF has been criticized by the EU, most notably by the European Parliament, although it


\textsuperscript{653} Sierra Leone in Debt Relief Deal, BBC News UK Edition (London), 19 December 2006. news.bbc.co.uk/2/hi/business/6192669.stm.


recognizes the importance of the framework in bringing debt sustainability to the centre of the decision-making process of international financial institutions. The EU has not yet expressed how it will go about implementing debt sustainability principles with the World Bank-IMF framework. Limited EU actions on debt relief and sustainability since the St.Petersburg summit and its lack of communication regarding debt relief indicate only partial compliance.

Analyst: Samreen Beg

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