CHAPTER 8

International Initiatives

So it is to be hoped that ... the process of debt cancellation and reduction for the poorest countries will be continued and accelerated.

Pope Benedict XVI, 8 January 2007

Heads of government, civil society, the IMF and the World Bank have condemned the behaviour of vulture funds. Ongoing lawsuits have highlighted an increasing need for support from the international community. One successful step has been an increase in debt relief, which has ultimately prevented many bilateral creditors from selling their claims to the vulture funds. This has in turn helped to avoid many lawsuits.

This chapter outlines the main debt relief initiatives and what they have achieved in curtailing the crippling debt of poor countries.

8.1 HIPC debt relief initiatives (1996)

In the 1990s, many poor countries faced a debt crisis. Interest payments were costing more than the countries were investing in new infrastructure. The IFIs and regional banks recognised that the debts could not be repaid. In response, in 1996 the IMF and the World Bank introduced the HIPC Initiative as a debt reduction package. The IMF and the World Bank aimed to ensure that poor countries were not encumbered with unmanageable debt. Under the HIPC Initiative, indebted countries were categorised as HIPCs and non-HIPCs. Some 40 countries were initially targeted as HIPCs. These countries received debt write-offs, conditional on their implementing certain measures, namely adjustment and reform programmes. Once the IFIs considered a HIPC country eligible for debt relief, they hoped other commercial or bilateral creditors would join in and write off debts voluntarily. Unfortunately this did not work out as expected, as creditors started to sell their debts on the secondary market.

The HIPC Initiative was reviewed in 1999 to provide for more effective debt relief and to strengthen the links between debt relief, poverty reduction and social policies.[79] Because of several vulture fund lawsuits, the results were still not as expected, and in 2005 the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative, which allowed for 100 per cent cancellation of debt on eligible debts.

In order to make debt relief more effective, the World Bank Debt Reduction Facility (DRF) made grant funding available to eligible governments to buy back debts owed to external commercial creditors. In the early days of the DRF, grants were given to International Development Association (IDA) indebted countries only to fund buy-back operations. So far, the DRF has been the most effective agency in stopping original creditors from selling their debts to vulture fund creditors. In Nicaragua, the DRF supported buy-backs of debt and four lawsuits were successfully stopped. The DRF also helped buy-back operations in Mozambique and Liberia. Buy-backs under the DRF have stopped many commercial creditors from going to court and are cheaper than litigation. Information about the initiatives and the DRF is available on the World Bank website.[80]

8.2 Norway (1998)

Following the introduction of the HIPC Initiative, in 1998 Norway was the first OECD country to present a comprehensive plan of action on debt relief for developing countries.[81] Norway was also the first OECD country to advocate 100 per cent debt cancellation for heavily indebted poor countries. All the political parties in Norway's National Assembly support its debt relief policy.

To date, Norway has provided relief beyond the terms of the HIPC Initiative (which is 90 per cent of bilateral debt reduction) and has given 100 per cent cancellation debt relief. Relief has been given to Benin, Tanzania, Senegal, Ghana, Côte d'Ivoire, DR Congo, Guinea, Sierra Leone and The Gambia. Another interesting feature of the Norwegian initiative is that debt cancellation is not financed out of the aid budget, but is additional to its official development assistance (ODA).

The Norwegian efforts have helped prevent many unpaid debts being acquired by commercial creditors. This has helped enormously in keeping many lawsuits out of court.

Norwegian policy highlights[82]

Norway is determined to:

- Continue to cancel 100 per cent of the debt of all HIPC countries indebted to Norway, provided they complete HIPC procedures;
- Support an extension of the December 2004 HIPC sunset clause to allow, inter alia, conflict-ridden countries, e.g. Sudan, Liberia and Somalia, to qualify;
- Consistently remind the international community that in order to deliver on the promise of HIPC debt reduction, the huge financing gaps that have been identified (e.g. US$11bn in IDA costs) must be addressed decisively, generously and regularly;
- Help pave the way for the clearance of arrears and speedy HIPC status for severely indebted poor countries emerging from armed conflict and civil strife;
- Grant faster and deeper debt reduction to severely indebted post-conflict countries, preferably 100 per cent debt service reduction once credible peace treaties are signed and representative governments have been formed;
- Pursue the Norwegian proposal for bilateral creditors to undertake multilaterally co-ordinated debt-for-development swaps, i.e. arrangements by which several creditor countries join forces in trading debt forgiveness for increased spending on health and education in non-HIPC debtor countries;
- Negotiate debt-for-development swaps with Pakistan, Vietnam and Ecuador, in co-operation with Canada, the Asian Development Bank and the Inter-American Development Bank, respectively;
- Support debt reduction for middle-income countries with unsustainable debt, as part of the Paris Club's new Evian Approach;
- Support the updating of Paris Club 'cut-off dates' to help make sure that demonstrably unsustainable debts are not excluded from debt negotiations;
- Support South-South (HIPC-to-HIPC) debt reduction efforts, provided a multilateral mechanism is established to achieve this;
- Continue to actively support mechanisms to reduce debt owed to multilateral finance institutions (the World Bank's 5th Dimension Facility) and private creditors (the IDA Debt Reduction Facility) in a cost-effective manner;
- Make sure that Norway's debt relief efforts are carefully tailored so as not to benefit other creditors, but only the indebted countries themselves.

8.3 G8 (2005)

In 2000 the UN Millennium Summit agreed the Millennium Development Goals, a series of targets aimed at reducing poverty and improving people's lives throughout the developing world. There was broad recognition that without debt relief and increases in ODA the MDGs would not be achieved.

In 2005, under growing pressure from various organisations and environmental groups to address poverty in Africa and help countries achieve the MDGs, the G8 summit decided to take action. (The G8 summit is a meeting of the world's seven leading industrialised nations, the UK, Canada, France, Germany, Italy, Japan and the USA, plus Russia.)

In the Gleneagles Communiqué, the G8 agreed to increase aid to Africa. Governments offered debt cancellation of US$40 bn[83] and 100 per cent cancellation for eligible HIPC countries of debts to the IMF, World Bank and the African Development Bank. Each G8 country made specific aid commitments. For example, the UK committed to increase ODA to 0.7 per cent of its gross national income by 2013.

As with Norway's initiative, the idea was that writing off debt would reduce the secondary purchase of debt by commercial creditors and hence reduce the number of lawsuits by vulture fund creditors.

But achieving this depends on the G8 countries fulfilling their promises and on the HIPC countries meeting the conditions imposed by the IMF and the World Bank.

8.4 The Paris Club Initiative (2007)

The Paris Club[84] is an informal group of creditor countries which aim to make co-ordinated efforts towards helping sovereign debtor countries with debt repayment difficulties. Paris Club creditors have collectively agreed to take part in the debt rescheduling process.

Although the Paris Club is not a legal entity, the creditors usually agree on the basis of a number of rules and principles. They operate under the principle of 'comparability of treatment' and believe that no creditor should be regarded as inherently privileged. The creditors agree to participate in rescheduling a HIPC country's debt to respond to a situation of imminent default. The debtor country in turn has to comply with the conditions through an IMF programme. Paris Club creditors make an exception, however, in allowing the indebted country to service their obligations to multilateral creditors such as the IMF and the World Bank first.

Even since the launch of the HIPC Initiative, some Paris Club bilateral creditors have sold their debts to commercial creditors and this has increased the number of lawsuits brought against sovereign debtors. By the end of 2006, 46 lawsuits had been brought against 12 HIPC countries, in which the courts had awarded judgment for a total sum of US$1.2bn.[85] In 2007, the Paris Club issued a statement calling on its members not to sell their debts to creditors who were unwilling to participate in the debt relief programme.

Paris Club statement

The Paris Club[86] has expressed its concern about aggressive litigation against HIPCs and has adopted several practical measures to tackle it. In a press release dated 22 May 2007, the group expressed concern about the actions of litigating creditors, as they freeride on the debt cancellation granted by other creditors and thus divert resources from poverty reduction expenditure by the debtor country.

Paris Club creditors also recalled that they are committed to the full implementation of the HIPC Initiative. They urged all official and commercial creditors and debtor countries to take the steps necessary to implement this Initiative. In particular, consistent with the Paris Club principle of comparability of treatment, and taking stock of the harmful consequences of litigation for HIPCs, Paris Club creditors have confirmed that they are committed to avoid selling their claims on HIPCs to other creditors who do not intend to provide debt relief under the HIPC Initiative, and have urged other creditors to follow suit. This call for enhanced co-operative action was reiterated in the Paris Club contribution to the Doha Conference on Financing for Development held in 2008.

8.5 China (2007)

China is committed to providing debt relief to most African countries, although its debt relief programme differs from that of the developed countries and the IFIs. China is not a member of the Paris Club and has not bound itself to the conditions set out in the HIPC Initiatives.

According to the 2007 IMF report,[87] China has agreed to write off all interest-free government loans to HIPC countries that were overdue at the end of 2004. All such debt relief should have been concluded by the end of 2007. As a non-Paris Club bilateral creditor, China also has claims on most post-completion HIPC countries, a total of 20 countries out of 22. It has already signed debt relief agreements with 17 countries. Even though proper statistics are unavailable, the IMF estimates that China has delivered nearly 50 per cent of its share of HIPC Initiative debt relief.[88]

8.6 Jubilee Debt Campaign

The Jubilee Debt Campaign has been instrumental in creating the international will to write off debt problems in developing countries. It has also named and shamed vulture fund creditors during or after litigation. It has pressed for the UK Parliament to pass a law to tackle vulture fund lawsuits in the UK courts.

The campaign has its roots in Jubilee 2000, which campaigned for the cancellation of poor country debt. It came into being as the Jubilee Debt Campaign in March 2001. It is based on the support of millions of individuals worldwide.[89] Its strength lies in the campaigning activities described on its webpage:

> *By uniting our voices, we have forced world leaders to face up to the scandal of poor country debt. With your help, we can force them to end it.*

The Jubilee Debt Campaign's activities have been acknowledged by the UK Government and its campaign has spread to other countries, including the USA.

Conclusion

This chapter has shown that many countries have recognised the need for greater debt relief to help HIPCs. It also shows the need to prevent bilateral creditors from selling their claims on to vulture funds.

Its key lessons are:

- Stopping the sale of unpaid debts through writing off debts should continue;
- The World Bank DRF measures allow creditors to obtain a fair amount of their unpaid debt;
- Implementing the HIPC Initiatives and MDRI is beneficial to countries if they have proper control and if programmes are accountable;
- Campaigns can be successful in situations where moral pressure is required;
- Concerted effort by the international community is necessary to allow indebted countries to achieve the MDGs.

Further reading

- IMF, spring and end of year meetings, http://www.imf.org/
- Jubilee Debt Campaign, http://www.jubileedebtcampaign.org.uk/