

Debt Relief for Development

Norway's Plan of Action

Summary



MINISTRY OF FOREIGN AFFAIRS

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More detailed information on Norway’s policy in relation to the topics discussed in this brochure may be found in the main document:

Plan of Action: Debt Relief for Development, published by the Ministry of Foreign Affairs in May 2004.

The document may be found on the Internet at:

<http://odin.de.no/ud>

It may also be ordered from:

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The quality of debt relief must be assured

It is true that the debt relief process has been slower than could be desired, but this is not necessarily due to the unwillingness of creditors. Why? Because debt relief alone leads nowhere unless it is accompanied by a policy that promotes development.

This is really a matter of quality assurance. For the developing countries, the primary task is to formulate their own poverty reduction strategies so that the resources freed up by debt relief are really put to good use. For the rich countries it is a matter of ensuring that debt relief really benefits impoverished people in developing countries.

This has often taken longer than many people believed beforehand. However, if we had relaxed the quality requirements, we would have done poor people a disservice. I believe that the future will show that what now appears to be lost time is in fact a good investment in effective, long-term development and poverty reduction.

Norway's debt policy is a mixture of pragmatism and ambitious political goals. More than five years have passed since Norway, as the first and OECD country, formulated

its own political plan to help reduce the debt of poor developing countries, *Towards the Year 2000 and Beyond: The Norwegian Debt Relief Strategy*. The time has now come to learn from the experience we have gained so far. We have studied the criticisms that have been raised and we have taken the temperature of the international debt dialogue. On this basis, we have reset our course. Our updated Plan of Action: Debt Relief for Development is the result of this process.

In the new plan, we reinforce the focus on debt relief for countries emerging from war and conflict. Sudan and Liberia are highly relevant in this context.

We also help to dispel a debt policy taboo. We advocate debt reduction for middle-income countries with obvious repayment problems. However, this type of debt relief must not take place at the expense of the poorest countries.

A third priority concerns multilaterally



Minister of International Development
Hilde F. Johnson

PHOTO: C. F. WESEBERG

coordinated debt swaps with countries that are not covered by the HIPC Initiative. The precondition must be that these countries commit themselves to implementing measures that promote development and reduce poverty.

If countries that have received debt relief under the HIPC Initiative return a few years later with new debt problems, this means that the current international debt relief strategy has failed. As in the original Debt Relief Strategy, we therefore advocate more systematic international cooperation to improve debt management in the poorest countries. Norway also wants flexible “topping up” of debt relief under the HIPC Initiative.

A fifth element is support for a proposal of UN Secretary General Kofi Annan. He wants a special international working group, representing a wide range of interests, to be established to consider the question of a new international debt negotiation mechanism.

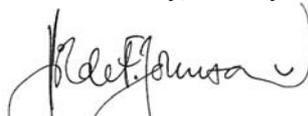
It is important for the debt debate to have a solid grass roots base. I am, therefore, pleased that this issue arouses the interest

of many people. At the international level, the Jubilee movement has made an enormous effort. In Norway, the Norwegian Campaign for Debt Cancellation has made its mark as an important, knowledgeable and influential player. The debt relief movement has undoubtedly helped to reorient international debt policy in a direction that has been favourable for the developing countries.

Today, these players are focusing a great deal of attention on what is called “illegitimate debt”. It is clear that this issue should be studied in more detail, particularly in a multilateral context. At the same time, it is important to ensure that this debate does not “drown out” the discussion on improvements to existing debt relief mechanisms aimed at the poorest countries.

Norway is and will always be “a small country”. Nevertheless, we were the first to make binding decisions on unilateral debt forgiveness for poor countries. In future, we intend to continue our efforts to influence the international debt relief agenda. It is not least for this reason that we are launching this new Plan of Action: Debt Relief for Development

Oslo, World Debt Day, 16 May 2004



HILDE F. JOHNSON
MINISTER OF INTERNATIONAL DEVELOPMENT



*Mothers and children at Ntawi district hospital in Malawi. Malawi is one of the countries that has been granted multi-lateral debt relief financed by Norway and is now improving its health services.
Photo: ODD IGLEBÆK*

Rapid debt relief for countries emerging from war and conflict

Poor countries that have recently emerged from war and conflict have a special need for financial assistance. Reconstruction will require massive resources. These countries will have substantial import needs. At the same time, the weakened private sector will only be able to generate new revenues to a limited extent.

In such cases, servicing external debt will complicate and delay reconstruction. Rapid, deep debt relief will often be essential. If countries are candidates for HIPC treatment, every effort should be made to ensure that they qualify for it.

For post-conflict countries, even small repayment obligations will be a heavy burden. Norway regards it as inappropriate to demand debt repayment from countries that receive international assistance for sorely needed reconstruction in the initial period after a conflict has ceased.

When the situation has stabilized, in the form of a peace settlement that is recognized and supported by the international community, and a legitimate government is in power, accelerated debt relief can contribute significantly to economic and political stabilization, poverty reduction and recon-

struction. Possibilities for early debt relief may in themselves be a spur to conflict resolution.

Norway can make further contributions to debt relief for poor post-conflict countries in two ways. One way is to support rapid clearance of these countries' arrears to multilateral institutions. The other is to refrain from claiming interest and principal payments during the reconstruction period. This can be done even before HIPC treatment commences.

Norway will:

- *work to ensure that poor post-conflict countries that are candidates for HIPC treatment do not have to spend scarce resources on servicing debt*
- *advocate that the Paris Club establish a general principle whereby the interest and principal repayments of post-conflict countries are either forgiven as they fall due or capitalized until these countries reach the decision point under the HIPC Initiative*
- *itself refrain from claiming interest and repayments from post-conflict countries*



SPLA-soldiers in Sudan. As soon as the conflict in Sudan has ended, debt relief should be high on the international agenda. Photo: GØRIL TRONSDEN BOOTH

Debt swaps for middle-income countries – exchanging debt for health, development and the environment

Today, it is usually impossible for middle-income countries to achieve debt reduction. The best they can hope for is deferred payment. To change this situation, it is proposed that arrangements be established whereby debt can be exchanged for investments in health, development and the environment.

In practice, such debt swaps will mean converting the claims of one or more creditor countries into a commitment on the part of the debtor country. Such commitments entail measures that will promote development. As a rule, these measures will be financed in local currency, even though the claim is in hard currency.

Debt swaps of this type will increase cooperation between creditor and debtor countries. They will provide sorely-needed local funding for aid projects. However, they have disadvantages as well. Debt swap arrangements can easily become complicated and very demanding from an administrative point of view, for both the debtor and the creditor country. If many creditors wish to organize individual debt swaps, the whole process may become a serious burden for the debtor country.

Purely bilateral debt swaps are difficult to

combine with the current emphasis on developing countries pursuing a coherent policy, and their ownership of it. Coordination at country level reinforces the development effect. The challenge is therefore to persuade several creditor countries to join forces in collective debt swaps.

If they also make efforts to coordinate debt swaps with the debtor country's adopted development strategies and adapt the volume of debt swaps to the country's macro-economic framework, such debt swaps will be good instruments for development policy. The development effect of such joint efforts can be far greater than scattered inputs in specific areas.

Another argument is that multilateral debt swaps may motivate creditors who are otherwise unwilling to provide bilateral debt relief over and above Paris Club agreements to participate. If debt swaps are to function properly, there must be international agreement on mechanisms and aims.

Debt swaps are not a relevant policy for HIPC countries. Over time, these countries will in any case have their bilateral debt cancelled on the basis of their own coherent development strategies.

Norway will:

- *refrain from implementing purely bilateral debt swap operations*
- *implement multilaterally coordinated debt swaps with Pakistan, Vietnam and possibly Ecuador, and offer a standing invitation to other creditor countries to join them*
- *advocate multilaterally coordinated debt swaps with countries against which Norway does not have claims*
- *advocate that multilaterally coordinated debt swap operations become recognized options in the Paris Club*
- *work to ensure that the Paris Club either eliminates or allows dispensation from volume limitations on development-motivated debt swaps*

ECOFUND – debt swap with Poland

In 1992, a multilaterally coordinated debt swap was initiated for Poland. Under the swap, 10 per cent of Poland's maturities to six creditor countries were forgiven in return for which the equivalent amount (in Polish zloty) is to be spent on environmental investments in Poland.

During the period 1992-2010, the swap will be equivalent to debt relief of USD 600 million, approximately USD 23 million (NOK 180 million) of which will be provided by Norway.

The funds freed up through this debt-for-environment swap are administered by ECOFUND, which was established by the Polish authorities as an independent foundation. The creditor countries are represented on ECOFUND's Supervisory Council. Besides Norway, the USA, France, Switzerland, Sweden and Italy are participating in the debt swap.

The ECOFUND swap is the only example to date of a genuine multilaterally coordinated ("multi-creditor") debt swap. The lessons learned from this joint undertaking should have significant value for the development of models for debt swaps with indebted middle-income countries.

The concept of “illegitimate debt” poses many challenges

The arguments in favour of canceling “dictator debt” have moral appeal. Most people would believe it unreasonable and unfair for poor people in today’s DR Congo to have to shoulder debt incurred by the regime of the brutal and corrupt dictator Mobutu Sese Seko. Or for today’s Iraq to be held responsible for loans taken up under Saddam Hussein.

In the international debt movement, there is a great deal of debate about “illegitimate debt”. In brief, the debt movement defines debt as being illegitimate when:

1. the debt was incurred by an undemocratic regime
2. the borrowed funds have been used for what are regarded as morally reprehensible purposes, such as the purchase of landmines or the financing of suppressive regimes
3. repayment is a threat to fundamental human rights
4. the debt has grown to unsustainable proportions as a result of external factors over which the country has no control, such as a rise in market interest rates
5. debt that was originally commercial is taken over by the government of a debtor country

One of the most important problems with definitions such as these is that almost all developing countries’ debt can be included. It is neither realistic nor appropriate to cancel all developing countries’ debt.

If we first enter into a serious debate about “illegitimate” debt, the problems mount up: Who will decide and how will they decide which regimes are “undemocratic”, or which heads of state are “dictators”? When did they become one or the other? For example, when did Robert Mugabe’s Zimbabwe become an “illegitimate” borrower?

How about the purpose of the loans? Are loans provided for undemocratic regimes but spent on development for the benefit of the poor “illegitimate”? What if the loans were provided to prevent economic crises, and refusing a loan application would have led to mass poverty and distress?

Is money that is borrowed to buy landmines “illegitimate debt” regardless? Even if it was borrowed by a democratic regime?

Almost all the debt incurred by South Africa’s apartheid regime consists of loans from commercial banks. Is it a public responsibility to finance the cancellation of such debt? Is this even an international

problem, since, in general, South Africa does not have serious debt problems?

International common law is based on the premise that a new regime takes over the international obligations of its predecessor, regardless of the nature of the former regime. If we are to change this so as to be able to define debt as “illegitimate” retroactively, international financial policy will become extremely complicated. The risks to lenders will be extremely high and loans will be more expensive. The poorest countries would be seriously affected by a policy of this nature. It might result in a total “credit drought”.

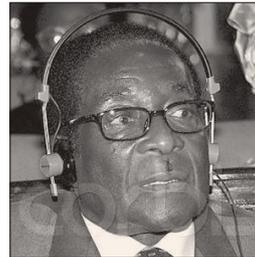
The total foreign debt of Iraq, Argentina and the Philippines is estimated to amount to approximately USD 309 billion. This is more than three times as much as the total debt of the 27 countries that have so far qualified for HIPC treatment. What if these three countries were now to have large parts of their debt forgiven because it is “illegitimate”? Is it not highly likely that this would take place at the expense of the poorest countries?

The debate on “illegitimate debt” should nevertheless continue. One reason is that it may help to ensure that loans are not granted for countries and regimes which, on moral grounds, should not receive them today. Nor can we rule out that at some time in the future we will be able to “lawfully” determine that dictators like Iraq’s

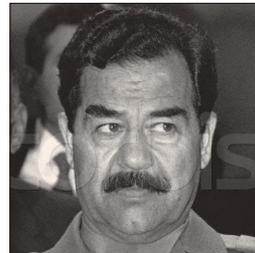
Saddam Hussein or the Philippines’ Ferdinand Marcos have taken up loans that must be regarded as illegitimate.

Norway will

- *support studies of “illegitimate debt” carried out by relevant multilateral institutions for the purpose of making practical, implementable recommendations.*



*Is debt incurred by Zimbabwe’s Robert Mugabe illegitimate or not, and if it is, since when?
Photo: Corbis*



*Is it fair that loans incurred by Saddam Hussein should be repaid by the people of Iraq?
Photo: Corbis*

The HIPC Initiative – the cornerstone of Norway’s international debt relief policy

The HIPC Initiative is a cornerstone of Norwegian debt relief policy. The Initiative is also the best, most comprehensive international debt relief policy instrument that is currently available.

International debt relief efforts must be both bilateral and multilateral. Norway also seeks to play a proactive role at the international level, wherever it is possible to achieve improvements. For instance, Norway was the first OECD country to make unilateral cancellation of debt a fundamental principle. Our priority now is to achieve improvements for countries emerging from war and conflict. Another important task is to improve the situation of heavily indebted middle-income countries.

The most important forums for discussions on the HIPC mechanism are the governing bodies of the World Bank and the IMF. Norway participates in both institutions in a constituency group that also comprises the other Nordic countries and the Baltic States. There is close Nordic coordination on most matters, including HIPC issues.

Issues related to the participation of other multilateral financial institutions in the HIPC mechanism are dealt with by the governing bodies of the institutions concerned. Responsibility for Norwegian participation in

these forums lies mainly with the Ministry of Foreign Affairs.

The Ministry of Foreign Affairs is also responsible for Norway’s participation in the governing bodies of the World Bank. The same applies to the Paris Club, where the participation of bilateral creditors in the HIPC Initiative is discussed. The Ministry of Finance and the Central Bank (Norges Bank) share a similar responsibility as regards the IMF, and consequently take part in discussions on Norway’s positions on HIPC issues.

In an international context, Norway is a small creditor, in fact the smallest creditor in the Paris Club. Like other countries, Norway uses the Paris Club to recover as many outstanding claims as possible from relatively affluent, economically developed countries. In such situations, being backed by the solidarity of the Paris Club creditors can make all the difference.

However, most of the countries that have government debts to Norway are poor. That is why we view the Paris Club as being as much a development policy forum as a forum for recovering outstanding claims.

Norway’s policy for international debt relief is summed up on the next two pages.

The Paris Club

The Paris Club is the main forum for creditors in the rich countries in the world. This is where debtor countries come to negotiate about their payment obligations. The Club has no legal status or statutes. Nevertheless, it is de facto an important international organization.

The Club has a secretariat, headed by a Secretary General, with 12-15 part-time employees, which is fully funded by France. The history of the Club dates back to 1956, when Argentina's debt was rescheduled for the first time. Today the Club has 19 permanent members, 18 of which are OECD countries. Russia became a member in 1996.

The IMF and the World Bank participate in all meetings. Other international organizations (such as UNCTAD), financial institutions and creditor countries (such as Brazil, Korea and Israel) take part in debt negotiations on an ad hoc basis. They do so at the invitation of the Paris Club, and have rights and duties on a par with the member countries.

The Paris Club bases its activities on five main principles:

1. The decisions of the Paris Club are based on a case-by-case assessment of the special needs of the debtor country.
2. Consensus. It only makes decisions on which there is a consensus among all the participating creditor countries.
3. Comparability of treatment of all creditors. This means that no creditor can demand larger payments or different, more favourable terms than those decided in the Paris Club.
4. Creditor solidarity. No creditor can seek to obtain better terms than others.
5. Conditionality. The Paris Club will only negotiate with debtor countries that are pursuing an IMF programme.

Debt negotiations must be formally requested by debtor countries. In a normal year, negotiations are held with 15-20 countries through which debts totalling USD 20-30 billion are either forgiven or deferred. (By comparison, development assistance provided by OECD countries totals USD 50-60 billion per year.) The debts of the poorest countries are forgiven. On the whole, middle-income countries are granted postponement of payments. The majority of the countries negotiated with are treated under the terms of the Heavily Indebted Poor Countries (HIPC) Initiative.

For more information, see www.clubdeparis.org

Norwegian debt relief: our goal is to achieve maximum development

Promoting debt relief for the poor countries in the world is important element of Norwegian development policy. The goal is primarily to ensure that forgiving debts makes the best possible contribution towards reducing poverty and improving health, the environment and development. 100 per cent debt cancellation for all HIPC-countries also has high priority on Norway's agenda. The main aspects of Norway's current debt policy are presented on these pages. The map shows the countries to which Norway gives priority, i.e. 21 countries in Africa, seven in Asia and three in Central America.

Norway will

- *urge as many creditor countries as possible to cancel 100 per cent of the debt of the poorest countries, as Norway currently does and will continue to do*
- *work to ensure that all debt relief benefits debtor countries, and not other creditors*
- *work to ensure that countries emerging from war and conflict (post-conflict countries) are given debt relief on better terms than the present ones, so that debts are not serviced at the expense of reconstruction and stabilization*
- *advocate that several creditor countries jointly carry out multilaterally coordinated debt swaps with middle-income countries, whereby debt is forgiven on condition that the debtor countries use the freed-up funds to carry out development or environmental projects*
- *work to ensure that middle-income countries facing payment difficulties also obtain credible debt agreements, if necessary by reducing their debt, so as to avoid frequently repeated Paris Club negotiations*
- *work to achieve reasonable burden-sharing among the various stakeholders by ensuring that the G8 countries are aware of their special responsibility and that all the multilateral institutions assume their share of debt relief*
- *work to ensure that binding multilateral negotiations on full financing of multilateral debt relief are held at regular intervals, and that pledged contributions to the HIPC Trust Fund are paid, so that the operations of the multilateral institutions are not impaired.*
- *make active efforts to ensure that bilateral and multilateral creditors that have not yet committed themselves to providing debt relief under the HIPC mechanism contribute their proportionate share of total debt relief as soon as possible*
- *build alliances with other countries, particularly with the other Nordic countries, the Utstein countries (Canada, Germany, the Netherlands, Norway, Sweden and United*

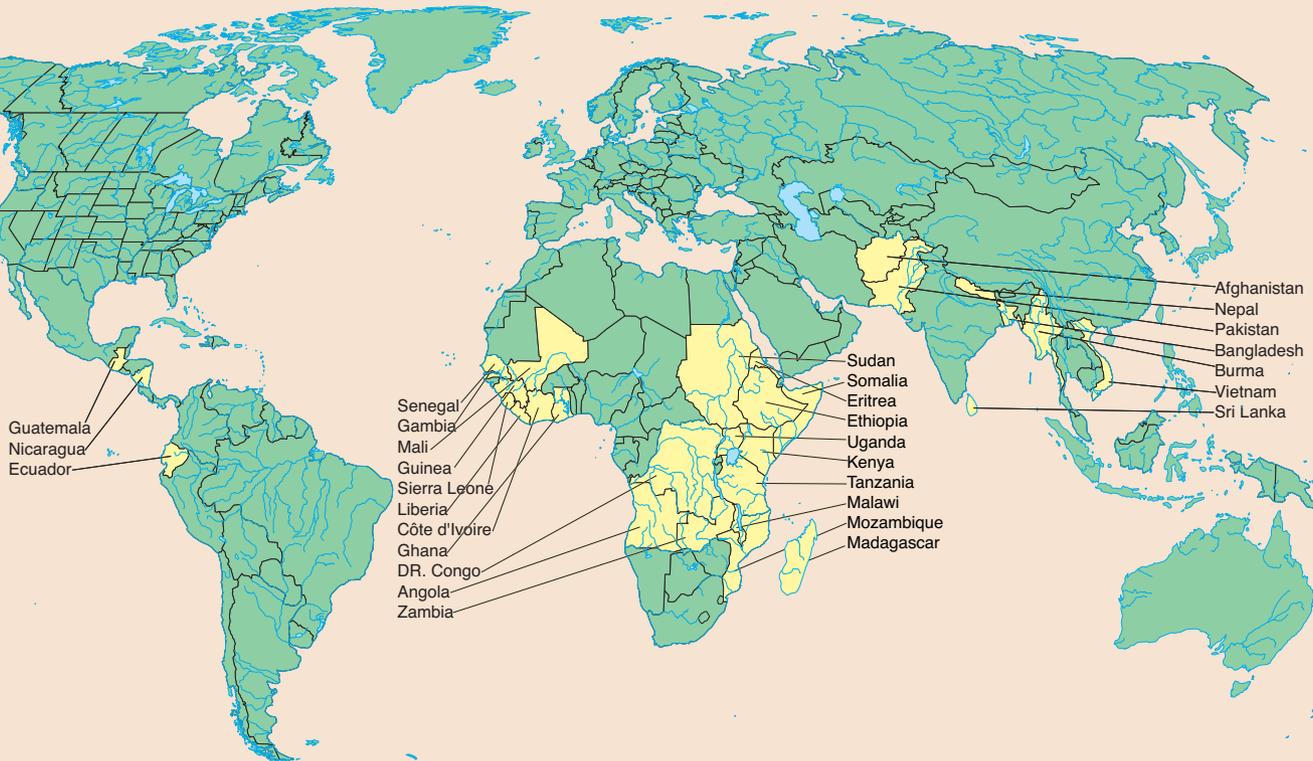
Kingdom) and Switzerland, in the ongoing negotiations and consultations on HIPC-related issues

- give high priority to financing the HIPC Initiative when allocating Norwegian budget funds for international debt schemes
- work to ensure that the World Bank and the IMF, when calculating a country's debt sustainability, avoid using overly optimistic estimates of the country's economic growth, export revenues and foreign currency earnings
- seek to change the current method of calculating necessary additional debt reduction

when a country reaches its completion point in the HIPC cycle, to ensure that extraordinary debt relief provided by Norway and other creditor countries is not included in the analyses, and thus benefits the debtor country and not other creditor countries.

- advocate that the Paris Club give the general public even greater access to information on its work, such as through its home page on the Internet
- engage in ongoing, constructive dialogue with the national and international debt relief movement

Priority countries in Norway's Plan of Action: Debt Relief for Development



The HIPC Initiative is succeeding – debt reduced by two thirds

To solve the debt problems of the poorest developing countries, the World Bank and the IMF established the Heavily Indebted Poor Countries Initiative (HIPC) in 1996. The goal is to reduce debt servicing to a sustainable level, i.e. to a burden of debt that a country can live with over time without it impeding economic and social development.

The HIPC Initiative now covers around 40 countries, most of which are in Africa. One of the important advantages of the HIPC mechanism is that it unites all creditors in collective debt relief operations.

In 1999, the HIPC Initiative was linked more closely to the fight against poverty. This was done by introducing a requirement that countries draw up a Poverty Reduction Strategy Paper (PRSP), which is a coherent development strategy aimed at reducing poverty. Through their PRSPs, HIPC countries commit themselves to involving their population and to documenting how public funds are used to alleviate poverty.

At the end of 2003, thirteen countries, i.e. Benin, Bolivia, Burkina Faso, Ethiopia, Guyana, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Tanzania and Uganda had completed the HIPC cycle.

Fourteen countries, Cameroon, Chad, DR Congo, the Gambia, Ghana, Guinea, Guinea Bissau, Honduras, Madagascar, Malawi, Rwanda, Sao Tome and Principe, Sierra Leone and Zambia, are currently in the HIPC cycle (somewhere between decision point and completion point; see the box on the HIPC Initiative).

For eleven countries, Burma, Burundi, the Central African Republic, Comoros, Côte d'Ivoire, Laos, Liberia, the Republic of Congo, Somalia, Sudan and Togo, the process has yet to begin. This is because these countries are in the throes of armed conflict and/or under poor governance, both of which make it impossible to implement PRSPs or similar measures. In short, debt relief would be of no benefit to the population of these countries.

In total, the 27 countries that participate in the HIPC Initiative to date will be granted a debt reduction of around USD 41 billion in nominal value. In real value, their debt will be reduced by about two-thirds. Their annual expenditure on debt servicing is around one third lower than before. Debt servicing expenditures, measured in relation to annual export revenues, have declined from an average of 16 per cent in 1998 to an average of 10 per cent in 2002.

Estimates also show that HIPC countries will, on average, spend seven per cent of their GNP on social measures. They will spend only two per cent on servicing their debts. In 2002 the HIPC countries' expenditure on health and education was almost four times as high as spending on interest and loan repayments. In 1999 the ratio was one-to-one, at best. In future, the HIPC countries will increase their investments in efforts to reduce poverty, from around USD 6 billion in 1999 to USD 12 billion in 2005. In other words, a significant turnaround has taken place.

Countries eligible for HIPC treatment receive development assistance, in the form of long-term interest-free development loans, from the International Development Association (the World Bank's development fund for the poorest countries) and from the development funds of other development banks. If the debts owed to these funds are

cancelled and no new monies are channelled to the funds, the funds will then have less capital to finance further development. Norway and the Nordic countries have worked hard to prevent this from happening. Initially there was strong opposition, but since 2000 it has been generally accepted that new monies must be paid into the development funds as and when debt is cancelled. This arrangement is called the HIPC Trust Fund and is administered by the World Bank.

At the end of January 2003, approximately USD 2.2 billion had been paid into the HIPC Trust Fund. Donors have pledged further payments totalling USD 1.2 billion. If these payments are made as agreed, the fund's financing is assured until 2005. If countries such as Sudan and Liberia are included under the HIPC Initiative, further substantial contributions must be made.



World Bank President James D. Wolfensohn (right) and Horst Köhler, former head of the IMF, have played a central role in shaping the HIPC Initiative. Here at a press conference with South African Minister of Finance Trevor Manuel during the IMF/World Bank annual meeting in Prague in October 2000. Photo: ODD IGLEBAEK

The debt relief process under the HIPC Initiative:

1. The countries concerned must draw up a coherent development strategy called a Poverty Reduction Strategy Paper (PRSP), which also forms the basis for the provision of other assistance by the World Bank and the IMF and, to a growing degree, by other donors. The PRSPs are updated regularly.
2. The World Bank, the IMF and the debtor country conduct a joint debt sustainability analysis to determine whether the country's debt situation is sustainable. If the country's total foreign debt exceeds 150 per cent of anticipated annual export revenues and/or 250 per cent of the government's disposable income, the debt is regarded as unsustainable and the country may qualify for debt relief. The criteria for determining whether a debt situation is sustainable are currently under debate, following pressure from Norway and other countries. This appears likely to result in some form of computation of the real value of a country's debt.
3. If the country qualifies for debt relief under the HIPC mechanism, it must carry out specific measures based on its PRSP in order to ensure that the debt relief promotes development and poverty reduction. When these measures have been implemented, the country reaches the decision point, when the amount of debt relief that must be provided in order to render its debt sustainable is calculated.

As a rule, the Paris Club creditor countries provide 90 per cent debt relief when the debt falls due from the time the decision point is reached. Other bilateral creditors are expected to do the same. On this basis, a calculation is then made of the amount of debt relief the multilateral creditors, such as the World Bank and the IMF, must provide to reduce the debt to the targeted level of sustainability.

When the decision point is reached, agreement is also reached as to which further measures, based on the country's PRSP, must be carried out in order for the country to be able to reach its completion point. Debt relief may be stopped during the interim period between the decision point and completion point if the agreed conditions for debt relief are not met. The length of the interim period will depend on the implementation of the PRSP, but is normally two to four years.

4. When the completion point is reached, the volume of the country's debt is reduced to ensure that it does not exceed 150 per cent of the country's export revenues. Several of the Paris Club creditors forgive all remaining debt at the completion point. Norway was the first country to introduce this practice. The multilateral creditors continue to forgive a certain percentage of debt to ensure that the country's debt burden remains sustainable.

For more information on the HIPC Initiative: www.worldbank.org/hipc

Tanzania's HIPC treatment

In April 2000 it was decided that Tanzania was to receive debt relief under the HIPC Initiative. The debt relief was to total USD 2026 million, which was a 54 per cent reduction in Tanzania's total debt as of 31 June 1999. During the period up to the completion point, Tanzania was to receive around USD 94 million in interim support from the World Bank and the IMF. Norway, for its part, cancelled approximately NOK 54 million of debt that fell due for payment during the interim period.

In August 2000 Tanzania presented its first PRSP, which was approved by the Executive Boards of the World Bank and the IMF in the months that followed, with the support of the Nordic and other countries. In order to strengthen Tanzania's economic development and orient public budgets to a greater degree towards reducing poverty, structural and economic reforms were necessary. The reform process was launched prior to implementing debt relief.

One of the criteria that Tanzania had to satisfy in order to receive debt relief was the implementation of measures to combat corruption. It was also required that at least 75 per cent of children under two years of age in Tanzania be vaccinated against measles, and that a national campaign to prevent HIV/AIDS be carried out. These and several other criteria were met, and Tanzania reached its completion point under the HIPC Initiative on 31 June 2001.

In 2002, Norway cancelled the remainder of its claim against Tanzania, which amounted to over NOK 47 million. From 1998/99 to 2000/01, Tanzania increased its transfers to the education and health sectors by 88 per cent and 45 per cent, respectively. This growth is expected to continue.



Roadconstruction in Tanzania
Foto: SØRVIS



*Debt swaps with Pakistan (photo) and other countries are an important element of Norway's plan of action.
Photo: GUNNAR ZACHRISEN*

Qualifying for Norwegian debt relief – each country assessed

Each individual debtor country is assessed to determine whether it qualifies for Norwegian debt relief. The decisive factors are its burden of debt, economic situation and political considerations, including human rights, democracy and corruption, and any other matters that may be relevant between Norway and the country in question. Special priority is given to low-income countries. Norway also puts emphasis on ensuring that Norwegian debt relief will not reduce the inputs of other creditors.

Middle-income countries with significant debt problems may also be considered for debt relief, provided bilaterally or through international debt operations. Such countries must show that resources which would otherwise have been spent on interest and loan repayments will be used to promote development and reduce poverty. They must also commit themselves to implementing economic reforms in cooperation with the IMF and/or the World Bank, more specifically by formulating coherent poverty reduction strategy papers (PRSPs) or acceptable alternatives.

Every country is required to combat corruption and promote good governance. Resources that are freed up as a result of Norwegian debt relief must, as far as pos-

sible, be integrated into the country's overall development efforts.

Human rights violations are likely to preclude debt relief. Debt relief must not benefit authoritarian regimes. When conditions improve, such countries will be assessed in relation to the recommendations set out in Norway's debt relief strategy. The same applies to countries in which there is no longer a central government or which are in a state of civil war. A credible peace settlement, followed by coordinated international efforts to promote stabilization and reconstruction, will create the necessary conditions for debt relief.

The debt relief strategy also covers countries that are not indebted to Norway but that receive or would qualify for debt relief under the HIPC Initiative. For such countries Norway can provide assistance from the Norwegian Fund for International Debt Relief Operations. The same applies to other developing countries to which Norway chooses to give priority based on ongoing political assessments. Developing countries are defined in this context as countries that are eligible to receive official development assistance (ODA) based on the criteria of the OECD Development Assistance Committee.

Norwegian allocations for debt relief – the fund and the financing facility

Financially, Norway's debt relief strategy is divided into two parts: debt relief financed under the Debt Relief Strategy Financing Facility and debt relief financed under the Norwegian Fund for International Debt Relief Operations. The financing facility was established by the Storting in 1999 whereby the debts of developing countries may be written off without requiring the allocation of new funds. Foremost this concerns debts contracted in connection with the Norwegian Ship Export Campaign (1977-1981). The Storting earmarked NOK 3 173 million for this type of debt relief. At the end of 2003, NOK 1 332 million had

been used, leaving NOK 1 841 million in remaining funds.

Debt relief that is not covered by this facility requires the allocation of "fresh" funds. Such allocations are made from the development assistance items in the central government budget: The Norwegian Debt Relief Fund.

Below is a list of the countries that currently have priority for Norwegian debt relief. It is to be regarded as a flexible working document that allows for additions and deletions.

Table 1: Norway's total contributions to debt relief (in NOK million)

Forgiveness of bilateral debt	1 609
Allocations from the Norwegian Debt Relief Fund*	3 444
TOTAL	5 053
* Fund for International Debt Relief Operations, Development Assistance Budget Ch. 172 Item 70	

Table 2: Norway's total claims against developing countries (in NOK million)

Total debts for 1997 compared with total debts at the end of 2003		
	Debt 1997	Debt 2003
Total facility countries	4 142	2 832
Total non-facility countries	328	539
SUM TOTAL	4 470	3 371

Priority countries under the Norwegian Financing Facility – debt relief requiring no new allocations

DR Congo, Gambia, Ghana, Senegal and Sierra Leone are all HIPC countries and eligible for up to 100 % bilateral debt relief.

The same applies to Guinea, on condition that the country resumes its interrupted IMF programme and requalifies for HIPC treatment.

For Ecuador and Vietnam, bilateral debt swaps are the most relevant course of action.

Angola, Burma, Côte d'Ivoire, Liberia, Somalia and Sudan may also receive up to 100 % debt relief from Norway, on condition that they emerge from war and conflict and/or improve their governance, and that they qualify for HIPC treatment.

Priority countries under the Norwegian Debt Relief Fund – new funding has been/must be allocated

In the short term, Norway will give priority to contributing towards a multilateral debt swap with Pakistan.

In parallel, priority will be given to participation in multilateral debt relief operations for a number of countries. Among the countries that are indebted to Norway, Côte d'Ivoire, DR Congo, Ecuador, the Gambia, Ghana, Guinea, Liberia, Pakistan, Senegal, Sierra Leone, Sudan and Vietnam are all candidates for this type of debt relief.

Afghanistan, Bangladesh, Eritrea, Ethiopia, Guatemala, Kenya, Madagascar, Malawi, Mali, Mozambique, Nepal, Nicaragua, Sri Lanka, Tanzania, Uganda and Zambia are also candidates, even though they are not indebted to Norway.

Table 3: Allocations from the Norwegian International Debt Relief Fund 1988-2003 (in NOK million)

World Bank's Fifth Dimension Facility	1 524
HIPC Trust Fund	915
World Bank's Sixth Dimension Facility*	61
Other international debt relief operations	944
TOTAL	3 444

* IDA debt reduction facility

Table 4. Norway's government-to-government claims against developing countries, by country (in NOK million)

Totals for 1997 compared with totals at end of 2003, in order of size of debt

	Debt 1997	Debt 2003
Peru	759	583
Sudan	318	320
Ecuador	319	304
Egypt	306	256
Senegal	398	232
Burma	232	232
Côte d'Ivoire	319	191
Algeria	166	139
DR Congo	197	122
Serbia-Montenegro	101	96
Guinea	125	89
Liberia	82	83
Sierra Leone	69	66
Jamaica	149	55
Vietnam	37	36
Ghana	202	8
Gambia	49	8
Angola	6	6
Somalia	6	6
Benin	225	0
Tanzania	77	0
TOTAL	4 142	2 832

Countries that are not covered by the Debt Relief Strategy Financing Facility

	Debt 1997	Debt 2003
Pakistan	0	255
Croatia	181	103
Zimbabwe	0	101
Indonesia	0	80
Mexico	71	0
Venezuela	44	0
Albania	18	0
Iran	7	0
Bosnia	5	0
Macedonia	2	0
TOTAL	328	539

For countries such as Sudan, Liberia and Burma accrued interest, which has not been calculated due to long-term arrears, could amount to substantial sums. These must be added to the figures in the table.

Table 5: Norway's forgiveness of bilateral debt 1998-2003, by country (in NOK million)

Benin	269
Egypt	267
Côte d'Ivoire	231
Senegal	225
DR Congo	166
Tanzania	102
Serbia-Montenegro	99
Guinea	73
Gambia	69
Ghana	69
Sierra Leone	39
TOTAL	1 609

Funds remaining in the Debt Relief Strategy Financing Facility as at 31 December 2003: NOK 1 841 million

Table 6: Norway's contributions to the World Bank's Fifth Dimension Facility, by country (in NOK million)

(Total as of 31 December 2003)

Zambia	331
Nicaragua	250
Tanzania	241
Malawi	182
Uganda	160
Bangladesh	125
Honduras	65
Ethiopia	50
Ghana	36
Kenya	32
Sri Lanka	20
Guyana	20
Senegal	12
TOTAL	1 524



*Sterkoder Mekaniske shipyard in Western Norway in the early 1980s. The shipyard was one of 36 Norwegian yards that participated in the ship export campaign vis-a-vis developing countries.
Photo: ODD IGLEBÆK*

The international debt relief movement

The Jubilee 2000 debt relief campaign emerged in England in 1997. The idea is based on a text from the Old Testament, which says that every fiftieth year must be a jubilee year, when the debt of the very poorest people is cancelled to give them a new chance.

An international debt conference was held in Rome in 1998. At this conference, many of the national campaigns formulated a joint petition for a large-scale signature campaign. The petition included the following:

“At the dawn of the third millennium people all over the world hear the Jubilee call for a new beginning, aware that two thirds are impoverished by the global economic and political system. People have transformed the world before and it is time to do so again.” Jubilee demanded cancellation of “unpayable debt, which is debt that cannot be serviced without placing a burden on impoverished people”.

The international campaign soon became a network covering more than fifty countries. In 2000, they collected more than 24 million signatures demanding debt cancellation for developing countries. U2 vocalist Bono,

opera singer Luciano Pavarotti and the Pope were among the signatories.

The Jubilee 2000 movement concentrated on exerting pressure on the leaders of the richest countries. They therefore used G8 summits, annual meetings of the World Bank and the IMF and other major international events to present their demands. Hundreds of thousands of people took part in demonstrations in Rome, Cologne, Prague, Birmingham and other places. The most important meeting in this connection was probably the G8 Summit in Cologne, where US President Bill Clinton and UK Prime Minister Tony Blair indicated the possibility of up to 100 per cent debt cancellation. In recent years, the debt relief movement has focused increasingly on what it calls illegitimate debt. It remains to be seen what this debate will lead to.

The addresses of relevant websites are:
www.jubileeplus.org
www.debtchannel.org
www.jubileedebtcampaign.org.uk
www.eurodad.org

The debt relief movement in Norway

The Norwegian Campaign for Debt Cancellation was established at the local level in Tromsø and Nøtterøy in 1992, and at the national level in 1994 under the acronym SLUG. So far, 55 different Norwegian organizations, large and small, have supported SLUG's demand for debt cancellation.

A national coordinating committee for SLUG was established in 1997. It has now merged with ForUM's working group on debt and development. In 1998, SLUG also joined the International Jubilee 2000 Campaign and has coordinating responsibility in Norway.

Today, SLUG increasingly emphasizes that developing countries' debt is one of several mechanisms that perpetuate poverty in the world. SLUG believes it is important to focus on the rights perspective in the debt crisis and has therefore chosen to promote the "illegitimacy perspective". The concept of illegitimate debt was inspired by the debt relief movement in the southern hemisphere, which formed Jubilee South after the Jubilee 2000 campaign.

More information may be found on SLUG's website:
www.slettgjelda.no



*Demonstrating for debt relief in Cologne.
Photo: KJETIL G. ABILDSNES*



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