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BUNDESMINISTER DER FINANZEN

53117 Bonn, January 21, 1999

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James D. Wolfensohn
President of the Worldbank Group
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Dear Mr. Wolfensohn,

IMF and World Bank have always been very active in seeking solutions for the debt problems of the poorest nations. In launching the HIPC debt initiative in 1996, the IMF and World Bank have made an important step forward to achieve a lasting solution of the debt problems of highly indebted poor nations. Significant progress has been achieved under this initiative, and I appreciate your personal leadership in tackling the sometimes difficult questions involved.

I believe that there is still room for improvement in implementing the HIPC initiative, particularly in speeding up the process of debt relief. I would like to inform you about our proposals on this subject, which are summarized in the attached paper on the „Cologne Debt Initiative 1999“. The issues will be discussed in preparation of and at the Cologne Summit.

Close cooperation of all parties involved will be necessary. I hope I can count on your support.

Yours sincerely,

Cologne Debt Initiative 1999
(Additional Debt Relief for the Poorest Countries)

On the threshold of the 21st century, the international community faces the task of ensuring that people in countries with less well-developed economies also benefit from the opportunities offered by globalisation for sustained growth, innovation and socially equitable and ecologically acceptable development. Overcoming the debt problems of the poorest developing countries is an essential element in this.

The debt initiative for highly-indebted poor countries (HIPC) launched over the past few years in cooperation with the World Bank and the IMF incorporates a range of measures designed to attain a lasting solution to the debt problems of the poorest countries. On the basis of this initiative it has already been possible to achieve a substantial reduction in the debt burden of several countries. The structure of the HIPC initiative has to a large extent been shaped by the economic summits.

It is now important for this initiative to be further advanced and improved in close cooperation with World Bank and IMF so that as many countries as possible fulfilling the necessary conditions can benefit from prompt and comprehensive debt relief and debt cancellation in accordance with their needs.

To this end, the following specific steps are proposed:

1. Acceleration of the HIPC process

The interim period up to debt relief should be shortened so that the countries qualifying for inclusion can benefit from debt cancellation as early as possible. Thus the hitherto envisaged period of six years should be reduced to three years for countries which, in close cooperation with the IMF and the World Bank, implement reform programmes to eliminate structural imbalances with the aim of promoting conditions for sustained development designed to eliminate poverty and inequality and which observe the principles of good governance. All qualifying countries should be able to obtain assurance on the extent and timing of their debt relief by the year 2000.

2. Maximum utilisation of the scope for relief

It must be ensured that debt relief granted within the framework of the HIPC initiative does in fact lead to a lasting solution to the debt problem. Therefore the threshold and target figure for indebtedness in all future cases should be generally set at 200 % of exports with some flexibility in exceptional cases.

3. Total cancellation of commercial debt by Paris Club in exceptional cases

Some countries qualifying for additional assistance under the HIPC debt initiative may be expected in exceptionally difficult situations to require more extensive debt cancellation than is feasible given the present ceiling of 80 % for the cancellation of commercial debt. Up to 100 % of commercial debt should be cancelled in the case of these countries if it appears necessary within the framework of the financial calculations of the World Bank and the IMF.

4. Total cancellation of debts from official development aid in the Paris Club

The aim of official development aid is to enhance and promote the beneficiary country's potential for development. But servicing the debts incurred from loans under official development aid can itself prove an impediment to development for the highly-indebted poorest countries. To eliminate this impediment we propose a multilaterally agreed approach providing for a mandatory complete cancellation in the Paris Club of debts from official development aid for those highly-indebted poor countries qualifying for assistance under the HIPC debt initiative. The debtor countries should deploy the funds thus released in national currency for projects promoting sustainable development designed to eliminate poverty and inequality, taking account of the legal and economic principles of good governance.

5. Resources for the World Bank Trust Fund

The financing of the contribution to the HIPC initiative to be made by multilateral creditors must be assured. Summit countries are under an obligation to contribute to full financing of the HIPC initiative by participating in the HIPC initiative trust fund. Germany will make a contribution to this in 1999.

6. Safeguarding the IMF contribution to the HIPC initiative

The IMF must be enabled to make its full contribution to the HIPC initiative and to continue to provide financial assistance to the poorest countries. The question of sale of part of the IMF gold should remain under review. Capital resources required in the short term for the continuation of the ESAF should be made available bilaterally; Germany is prepared to participate in this.

7. New credit and financing arrangements

In the case of countries that have qualified under the HIPC initiative and have been granted lasting rescheduling, summit countries support new credit and financing arrangements serving in particular to improve the debt service capability of such countries. This relates principally to projects increasing a country's capacity to exports and to earn foreign exchange. The decision on new finance and new guarantees will be taken by the respective creditor country on its own responsibility on the basis of project and country risks.