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Joint NGO Briefing Paper

In the Balance

Why Debts Must be Cancelled Now to Meet the Millennium Development Goals

Jubilee Debt Campaign, ActionAid UK and Christian Aid are members of **MAKEPOVERTYHISTORY**, calling for trade justice, debt cancellation and more and better aid.

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Table showing the amounts that could be released in 2005 through debt cancellation

All figures in millions of US \$.

	G8 countries' share ⁺	All creditors
Cancellation of World Bank and African Development Bank debt service for 22 countries currently qualifying for UK-Canada-Netherlands proposal *	357	503
Cancellation of World Bank and African Development Bank debt service for all IDA-only countries needing it on our MDG-based analysis *	923	1,300
Cancellation of World Bank and African Development Bank debt service for all countries needing it on our MDG-based analysis (IDA-only and other low-income countries) *	5,900	8,300
Total resources that need to be released via cancellation of external public debt, in order to meet MDGs, just for IDA-only countries **		10,100
Total resources that need to be released via cancellation of external debt, in order to meet MDGs (IDA-only and other low-income countries) **		45,700

These are indicative of the amounts that would be released in each subsequent year.

⁺ Countries' shares of this debt has been calculated in proportion to their share of the IDA 13 replenishment.

* Based on debt service projections. **Based on actual debt service paid in 2003.

Introduction and Summary

The poorest people in the world are trapped in a cycle of poverty and powerlessness. This is perpetuated, at least in part, by the unremitting demands of the rich world for money from the poor world in debt payments. These demands continue regardless of the source of the debts or the impact on the poor of their being paid.

It is now accepted that on current trends the Millennium Development Goals, which 189 governments agreed to achieve by 2015, will not be met for more than 100 years. These are not notional goals for the total eradication of the poverty gripping much of the world, but were intended as achievable, realistic targets simply for the partial alleviation by 2015 of extreme poverty. The collective response of the richest and most powerful nations in the face of this monumental global failure has, so far, been grotesquely inadequate. Their unwillingness to accept responsibility for their role in creating and perpetuating the current debt crisis and other causes of global poverty – while allowing the poorest and most powerless to pay with their lives – is shameful.

Recently, in face of vocal and determined demands for debt cancellation from campaigners and activists around the world, some governments have set out proposals for how the international community might agree to greater debt cancellation or have even committed themselves to further debt relief. Though none of these proposals goes far enough yet, we very much welcome this willingness to address the problem, and hope it signals a determination to offer a proper response to the debt crisis. Now is the time to act – and we set out in this briefing what we believe must be done.

- **Debts must be cancelled as a matter of justice:** creditors must accept their share of responsibility in creating the current debt crisis, and cancel debts on this basis.
- **Cancellation must be available to all countries that need it:** our indicative analysis of the financing required to meet the Millennium Development Goals indicates that at least 62 poor countries need 100% debt cancellation now.
- **There should be accountability but not economic policy conditions:** the governments of indebted countries must demonstrate to their citizens that they are spending money well and accountably. But this must not be used as an excuse to impose economic policy conditions or to limit those countries receiving debt cancellation.
- **Unpayable debts to ALL creditors must be cancelled:** this must include all multilateral, bilateral and commercial debts.
- **Debt stocks must be cancelled, not just service:** debt service cancellation for a limited period is not enough. Debts must be completely written off.
- **Debt relief must provide additional resources for poverty reduction:** if debt cancellation is to make a difference to the poorest people in the world, it must release extra funds and not be paid for by taking money out of aid budgets.

The debt stock cancellation needed on our analysis would release an extra \$45.7 billion in 2005, and similar amounts in each subsequent year, providing crucial financing for the Millennium Development Goals. Even when we just consider the smaller group of countries being considered in some current proposals, the cancellation that we calculate is needed would release \$10 billion in 2005. By contrast, the proposals currently on offer, even if all G8 creditors agreed, would release between \$0 and \$357 million this year.

Finally, we include the questions that we will ask about any proposal for debt cancellation put forward by the G8, to determine whether it will make a serious contribution to making poverty history.

1. Debt Cancellation – A Question of Justice

Where did the debt come from?

From the 1960s and 1970s, developing countries were encouraged to take on large loans, which since then have escalated into enormous and unmanageable debts. Contributing factors have included the oil crisis in the 1970s, the collapse of many commodity prices, and the huge hike in interest rates in the 1980s. This has meant that many countries now owe more than their original loans, even after years of repayments. For instance, Nigeria originally borrowed about \$17 billion; it has already repaid \$18 billion, but still owes \$34 billion. Just \$2.1 billion in loans from bilateral creditors since 1971 has snowballed into over \$22 billion in debts.¹

Creditors – both rich governments and the international financial institutions – have not sufficiently taken on board their share of responsibility for this crisis. Negligent and inappropriate lending, usurious terms of lending, and unjust trading conditions have all played a role in creating the debt crisis or undermining poor countries' ability to repay debts. In many cases, loans were knowingly given to corrupt, undemocratic and oppressive regimes, often in return for political support in the cold war. Over \$500 bn of all developing country² debt, can be attributed to loans to dictators, which can also be termed 'odious debt'.³ These include such horrific regimes as those of Mobutu Sese Seko in Zaire⁴, General Pinochet in Chile, 'Papa Doc' Duvalier in Haiti and apartheid-era South Africa. Rather than accepting responsibility for their part in propping up corrupt and oppressive regimes in these ways, and taking steps to repatriate stolen assets now invested in their countries, creditors continue to demand repayment from subsequent democratic governments. The countries' populations, who suffered at the hands of oppressive regimes, now suffer again because of the debt.

“There is strong resentment in many parts of Africa over these debt obligations, in part because much of the debt was incurred by unelected leaders supported by the very countries now receiving money to cover the service of those debts – and who, many Africans feel, are now using debt as a lever to dictate policy to the country.”

Our Common Interest: Report of the Commission for Africa, March 2005

The burden of payment

Today, the debts which low-income countries are being expected to repay to the rich world total \$523 billion. Every day, poor countries give over \$100 million in debt service to rich countries and the institutions they control, such as the World Bank and International Monetary Fund (IMF). For every \$1 they receive in grant aid, they pay back more than \$3 in debt service⁵. Meanwhile, 30,000 children are dying every day because of preventable poverty⁶ - that is, from hunger, lack of clean water, and diseases which could be prevented or treated if the money were available.

The demands for debt payments being made by the rich world of poor countries are unsustainable, unjust, and fail to take proper account of the needs of these countries' own people. For instance, in 2003 Senegal and Malawi each spent about one third of their government revenues on debt service.⁷ These are just two of the many African countries from which creditors demand more money every year in debt service than the government spends on health.⁸ Meanwhile, the continent is in the midst of a health crisis, being ravaged by HIV / AIDS, malaria and other treatable diseases. In Zambia, another of the countries which has been spending more on debt than either health or education, life expectancy is just 33, and in sub-Saharan Africa as a whole, nearly one in five children dies before reaching the age of five.

¹ *Why Campaign for Debt Cancellation for Nigeria?*, www.newstartnigeria.com

² Low and middle income countries.

³ Joseph Hanlon, *Defining Illegitimacy*, Norwegian Church Aid 2002 – see also for definitions of 'odious' and 'illegitimate' debt.

⁴ Now Democratic Republic of Congo

⁵ All figures from *Global Development Finance 2004*, World Bank. 'Grant aid' excludes technical assistance.

⁶ *80 Million Lives 2003*, S. Fustukian, R. Keith, A Penrose, Grow Up Free From Poverty Coalition, 2003

⁷ *HIPC Status of Implementation Report*, August 2004, IDA / IMF

⁸ In 2002 / 2003 also true of Cameroon, Ethiopia, Gambia, Guinea, Madagascar, Mauritania, Uganda and Zambia. See *Do the Deal*, ActionAid, CAFOD, Oxfam, February 2005.

The current international debt relief scheme, the Heavily Indebted Poor Countries (HIPC) initiative, has manifestly failed to deliver the 'sustainable exit from debt' which the G8 claimed it would provide. It has so far provided actual debt cancellation for only 18 countries.⁹ The burden of debt on poor countries remains vast and crushing. An urgent and far-reaching response to this crisis is needed.

“Creditor nations and the International Financial Institutions need to acknowledge publicly the roles they played in exacerbating indebtedness in poor countries, especially in Africa.”

African Civil Society Statement on Recent Debt Cancellation Proposals, coordinated by AFRODAD, March 2005

Debt as a tool of power

The international financial institutions routinely use both the loans they make to poor countries and any debt relief they offer as tools to force particular economic policies onto poor countries. Poor countries are given loans or debt relief only if they comply with conditions such as privatising public utilities and basic services, cutting public spending, opening up markets, and deregulating investment. Quite apart from the harm that has been shown to result from these kinds of externally-imposed economic policy prescriptions, this practice takes control over important political decisions away from governments, elected parliaments and civil society, putting them instead in the hands of unaccountable organisations, controlled largely by rich country governments. It is important for debtor countries to demonstrate to their citizens that the money saved from debt relief is spent on poverty reduction in a transparent and accountable manner; but this does not justify creditors exercising control over debtor countries' economic policies. Cancelling debts without attaching further economic policy conditions is a necessary part of putting an end to this illegitimate exercise of control.

Taking responsibility

Creditors must take responsibility, both for their role in creating the debt crisis and for the impact on poor countries of their failure to put an end to it. The governments of indebted countries must take responsibility for their own people's situation, and ensure that the funds released by debt cancellation are spent effectively and transparently. In this context, debt cancellation is not an act of charity by the rich North towards the indebted South. Rather, it is a way for Northern and Southern governments to work together to deliver justice to those being kept in poverty by the current situation, and to go some way towards eliminating the imbalance of power perpetuated by current levels of indebtedness.

⁹ Those which have reached 'Completion Point' as of June 2005: Benin, Bolivia, Burkino Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia

2. Debt Cancellation for ALL Countries that Need It

For too long, creditors have talked about how much debt poor countries can 'afford' to pay in terms of arbitrary, one-size-fits-all economic ratios such as debt-to-exports and debt-to-revenue ratios. But this takes no account of the actual needs of a country's population and what it costs to provide for them.

UK-based NGOs working as part of **MAKEPOVERTYHISTORY** and Jubilee Debt Campaign firmly believe you cannot calculate 'debt sustainability' without looking at how much money a country needs to spend on schools, hospitals and roads, on teachers, medicines, clean water and on everything else that is needed to combat the dire poverty blighting so many lives. If a country cannot afford to meet the basic needs of its own people, then it is grotesque to suggest that giving money to the rich world is affordable or 'sustainable'.

“Frankly, it is a scandal that we are forced to choose between basic health and education for our people and repaying historical debt.... Shall we let our children die of curable or preventable illnesses; prevent them from going to school; let people drink polluted water – just to pay off this debt?”

HE President Benjamin William Mkapa of Tanzania, speaking at the Jubilee Debt Campaign conference in February 2005

Debt relief must be available to ALL countries that need it to meet their needs¹⁰ – at the very least, countries must have enough resources to meet the Millennium Development Goals (MDGs)¹¹. And it is worth remembering that the Millennium Development Goals are only minimal targets to halve extreme poverty by 2015 – full elimination of poverty would require greater resources and therefore greater debt cancellation.

Can poor countries afford to pay debts?

It is increasingly accepted that all countries which have passed Decision Point within the HIPC initiative, need total debt cancellation.¹² These are countries that have historically had a huge debt overhang, and the cancellation they have received through HIPC has been too little, too slow, and has come with harmful conditions attached. Many spend more on debt than on health or education. It is time to cancel these countries' debts completely.

But HIPC does not include many severely indebted countries that are trying to tackle serious poverty while being drained of resources by demands for debt payments. A number of countries are theoretically eligible for HIPC, but have not even reached the point of being considered for debt relief ('Decision Point'), while others are excluded entirely. We have looked at the financing needs of 47 of these countries¹³, based on the Millennium Project Report¹⁴ estimate that low-income countries will need \$40 to \$50 per person in external resources next year¹⁵ (and more in following years) if they are to meet the MDGs.

On this basis, it is clear that drastic debt cancellation is needed for many more countries, alongside a significant increase in aid, if they are to stand any chance of meeting even the basic targets contained within the MDGs.

¹⁰ This chapter is based on an analysis of debt sustainability in terms of the financing requirements of the Millennium Development Goals, developed by Romilly Greenhill, ActionAid UK.

¹¹ Debt relief should be an important source of finance to meet the Millennium Development Goals. From a development effectiveness point of view, it is generally a better form of finance than aid, on the grounds that it is untied, predictable, stable, flexible, available to meet countries own priorities ('alignment') and does not suffer from problems of poor donor co-ordination.

¹² This is 27 countries: Benin, Bolivia, Burkina Faso, Cameroon, Chad, Democratic Republic of Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea Bissau, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome Principe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia.

¹³ All countries classified as low-income or IDA-only, except HIPC Decision Point and Completion Point countries, and those for which no data is available. IDA-only countries are those eligible for World Bank loans only from the International Development Association, the Bank's concessional lending arm.

¹⁴ Sachs et al, *Investing in Development*, UN Millennium Project, 2005

¹⁵ Our calculations are based on an average figure of \$45 per capita.

- Of the 47 non-HIPC low-income countries not currently within the HIPC process, 35 clearly need immediate 100% cancellation of debts, just to have a chance of meeting the MDGs.¹⁶
- Of the 15 countries theoretically eligible for HIPC but which have not yet been allowed to enter the scheme, 14 need 100% debt cancellation **now** on the grounds of need. (Lao on this analysis needs partial debt cancellation.)¹⁷
- At least 21 other countries that creditors do not even consider eligible for HIPC – such as Bangladesh, Nigeria and Haiti – also need immediate and full debt cancellation.¹⁸
- There are a few other countries that, on this analysis, should be able to reach the MDGs out of their aid allocations. But most of these countries are vulnerable to severe shocks such as flooding, increasing HIV/AIDS prevalence and hurricanes – they may therefore need debt cancellation at a later stage.
- Other severely indebted countries not officially classified as ‘low income’, which we have not analysed here – such as Jamaica, the Philippines and Peru – may also need debt cancellation to meet the MDGs.
- On our analysis, this debt stock cancellation is needed in order to release an extra \$45.7 billion in 2005, and similar amounts in each subsequent year.¹⁹ For IDA-only countries, cancellation is needed so as to release \$10 billion for poverty reduction in 2005.²⁰ These amounts include all public external debts, including those which the G8 cannot cancel alone. But given this level of need, it is clear the G8 needs to go much further than current proposals – which cover less than 30 countries, and would release between \$0 and \$357 million this year.

“For impoverished nations struggling to meet the human needs of their peoples, full 100% multilateral debt cancellation is the only option.”

Joint statement by African NGOs meeting in Lusaka, December 2004

What would happen to poor country debt without debt cancellation now?

If impoverished countries don't have debts written off now in a way that offers new sources of finance, but still try to meet the Millennium Development Goals by taking on new loans, it is clear that they will be plunged into an even deeper debt crisis.²¹

- Without further debt cancellation now (beyond what is being offered through HIPC), and even on a generous assumption of growth, indebtedness in relation to national income will rise sharply between now and 2015, to levels far above the current, already intolerable situation.
- Of the 59 countries for which data is available for this further analysis, the majority (47) would have a debt burden of crisis proportions²² by 2015, higher in relation to gross national income than the 2002 average for sub-Saharan Africa.
- Almost half would have debts greater than national income, and six of the countries – including HIPCs such as Burundi, Guinea-Bissau and Ethiopia – would have debt stocks in 2015 more than double national income.
- One country that did not appear to need debt cancellation on the previous analysis, Mongolia, would face a debt crisis in 2015 without further debt cancellation, because of the new loans it will need to take on to meet the MDGs.

¹⁶ The countries listed in Notes 17 and 18. A further three countries – Lao, the Maldives and Papua New Guinea – need, on this analysis, partial debt cancellation of up to 90%.

¹⁷ Angola, Burundi, Central African Republic, Cote D'Ivoire, Comoros, Congo, Kenya, Liberia, Myanmar, Somalia, Sudan, Togo, Vietnam, Yemen.

¹⁸ Azerbaijan, Bangladesh, Cambodia, Equatorial Guinea, Eritrea, Georgia, Haiti, India, Indonesia, Korea, Kyrgyz Republic, Lesotho, Moldova, Nepal, Nigeria, Pakistan, Sri Lanka, Tajikistan, Uzbekistan, Vanuatu, Zimbabwe

¹⁹ Based on 2003 figures. 100% cancellation for all HIPC Decision Point and Completion Point countries (see note 12), and those listed in notes 17 and 18 (62 in total); partial cancellation for the countries listed in note 16.

²⁰ IDA-only countries. The countries in notes 12, 16, 17 and 18, with the exception of Azerbaijan, Equatorial Guinea, India, Indonesia, Korea, Nigeria, Pakistan, Papua New Guinea, Uzbekistan and Zimbabwe.

²¹ Based on generous assumptions, as follows. **Financing needed:** based on Millennium Project estimates of \$40 - \$50 per capita in 2006, rising to \$70 - \$100 by 2015, we take a mid range estimate of \$45 and \$85, and assume that the requirements gradually between 2006 and 2015. **Population:** World Bank estimates. **Growth:** 7% (in line with MDG requirement).

Financing modalities: 50% grants; 50% loans, with 0% interest on current debt stock and new loans.

²² Debt-GNI ratio of above 60%.

- If there is 100% debt cancellation in 2005, the situation is drastically improved. However, even in this improved scenario, more than 20 low income countries will face a debt crisis in 2015 if they attempt to meet the Millennium Development Goals without donors switching towards financing poverty reduction through grants rather than loans.

According to our analysis – as a minimum, and based only on average calculations of financing needs for the Millennium Development Goals – at least 62 low-income countries need immediate, 100% debt cancellation simply to meet the Millennium Development Goals.²³ A more detailed analysis of countries' situations and the inclusion of severely indebted countries not classified as low-income – such as Peru, Ecuador and Jamaica – would certainly increase the numbers.²⁴ To avoid a further debt crisis, debt cancellation **must** also be accompanied by a decision to give grants not loans for expenditure on poverty-reduction.

Millennium Development Goal 8 commits the governments of the world to “a global partnership for development”. With only ten years to go before the goals should be achieved, it is time for rich countries to live up to this commitment by providing the necessary financing, through both debt cancellation and grants. The rich world has no excuse for standing by and refusing to act.

²³ The 27 HIPCs which have reached Decision Point or Completion Point (see Note 12 above), and 35 others identified in Notes 17 and 18 above. And a further 3 need partial cancellation (see Note 16 above).

²⁴ This is just considering cancellation on the basis of human development needs; inclusion of odious debts would need still more countries to be covered.

3. Support Accountability but Abolish Policy Conditions

Debt relief granted as part of the existing international scheme – the Heavily Indebted Poor Countries (HIPC) initiative – has come at a heavy price. Any debt cancellation granted has been made conditional on the implementation of many detailed economic policies. These have included, for instance, cuts in health and education spending, trade liberalisation and privatisations of government-run industries. As has been argued by a wide range of experts – including UN bodies and indebted country governments as well as civil society²⁵ – these measures have not only slowed down debt relief, but have often harmed recipient country economies. They have been more likely to protect the assets and interests of creditors than promote growth, poverty-reduction or stability. They also undermine democracy in poor countries, by denying elected parliaments or civil society a say in important decisions about how the country is run. We believe all debt should be cancelled without economic policy conditions attached.

“Debt is a tool of domination used by rich country governments and creditors like the IMF and World Bank. Conditions attached to debt relief and loans are devastating our economies and undermining our choices as sovereign nations.”

Joint statement by African NGOs meeting in Lusaka, December 2004

However, it is critical that the money released from debt cancellation be demonstrably used for poverty reduction. Recipient governments should demonstrate to their own citizens that they are spending money in a sensible and fair way. (Donors also have a responsibility to be confident of this.)

How can donors and the citizens of indebted countries be sure that the proceeds from debt cancellation will be used for poverty reduction?

Creditor governments have argued that recipient countries, as well as agreeing to target resources from debt cancellation at reducing poverty, should have a public expenditure management system that can transparently account for the use of debt service savings. The UK, Canada and the Netherlands, in their new debt relief initiative, propose measuring this by the use of ‘proxies’. They are offering debt relief only to countries which have completed the HIPC initiative, and those receiving Poverty Reduction Support Credits (PRSCs) from the World Bank, on the grounds that the expenditure management systems of these countries have gone through formal assessment and received good marks.

But these proxies are totally unacceptable. The assessments undertaken in the HIPC and PRSC processes do not only assess public expenditure management, but also a range of economic policies. They impose economic policy conditions often inappropriate to the needs of a country. Nor are the assessors independent: they are the creditors themselves, leaving the process open to politicisation. (Other proposals that involve continuing with the HIPC scheme, of course, involve the same problems.)

A new system is therefore needed to assess one thing and one thing only – can money saved by debt cancellation be transparently accounted for? The key criteria for this kind of analysis are:

- Recipient governments should primarily be responsible to their own citizens and parliaments, rather than external agencies.
- Analyses must focus very tightly on public expenditure management, rather than commenting on other public policy issues.
- Decisions must be made impartially, as far from political influence as possible (either from donor or recipient).

Agreed international standards on public expenditure management would be helpful to ensure this. Existing standards include, for instance, the Public Expenditure Financial Accountability (PEFA) program and the UN Convention on Corruption.

²⁵ See, for example, *Our Common Interest: Report of the Commission for Africa*, March 2005; *Treacherous Conditions*, World Development Movement, May 2003

“Creditors should respect and use debtor countries’ leadership, institutions and systems in managing aid and where these are weak, especially in fragile states, they should work with the debtor governments to strengthen national systems and capacity to develop, implement and account for its policies and actions to its citizens, parliament and donors.”

African Civil Society Statement on Recent Debt Cancellation Proposals, coordinated by AFRODAD, March 2005

One option that has been put forward is for a global public expenditure management monitoring body. This body would be independent of creditors/donors and borrowers/recipients. Alternatively, the monitoring of public expenditure management could be undertaken at national Consultative Group meetings. These would have to be fundamentally reformed so as to reduce the status of the World Bank, and raise the status of national stakeholders including parliamentarians and civil society groups.

Whichever model is chosen, the focus must be exclusively on analysing accounting procedures – and ensuring the accountability of the government to its own people – rather than making economic policy decisions.

What if there are legitimate concerns that money will not be used for poverty reduction?

In some cases, although fewer than is often supposed, an independent analysis might conclude that recipient countries are diverting or misusing resources released by debt cancellation.

In such cases, aid and debt relief could be held in trust temporarily until these basic concerns are addressed. (There is already a precedent for a trust arrangement with UK debt relief for countries that have not yet reached ‘Completion Point’ under the Heavily Indebted Poor Countries (HIPC) initiative. Any debt service received from those countries that have passed Decision Point is held in trust, to be returned to them once Completion Point is reached.) Creditors and donors should also take on responsibility for working with the government concerned to ensure that difficulties are addressed, and the resources released to the country as soon as possible.

This not only ensures that all countries eventually receive their fair share of global aid allocations, but would also provide positive incentives for the country to reform. Such an arrangement would also undermine donors attempting to use the spectre of ‘bad governance’ as an excuse to resist calls for aid and debt relief. This would involve creditors making available funds for debt relief, and then dealing with public expenditure management as a separate issue.

4. Cancel Unpayable Debts to ALL Creditors

All too often, governments make grand claims about their efforts to 'cancel third world debt' when they are in fact talking only about debts owed to some creditors. Debt cancellation agreed for impoverished countries must include all unpayable debts – including bilateral debts, debts to multilateral institutions, and commercial debts.

IMF debts

Current proposals for extending debt relief focus largely on cancellation of debts being paid to the World Bank.²⁶ But there has been an increasing reluctance on the part of some creditors to discuss debts owed to the International Monetary Fund (IMF). For example, in his statement to the International Monetary and Finance Committee of the IMF in April 2005, US Treasury Secretary John Snow stated that the US is "not persuaded" of the need for IMF debt cancellation. This contradicts a statement by all G7 finance ministers in February 2005 which expressed their willingness "to provide as much as 100 per cent multilateral debt relief".²⁷ It is unacceptable to exclude IMF debts from cancellation initiatives.

In 2004, the debt payments Zambia made to the IMF alone were larger than its entire education budget. Payments to the IMF account for as much a quarter to a third of the debt service due to multilateral creditors by low income countries over the next ten years.

The IMF can afford to cancel its debts. It has large and undervalued gold reserves: it values this gold at \$9 billion, but at current market prices it is in fact worth about \$45 billion. The rich governments which control the IMF allow it to sit on these huge resources, while demanding millions of dollars every day in debt payments from poor countries which cannot provide for the basic needs of their own people. HIPC debts to the IMF currently total \$7 billion. Sales of even some of the IMF gold could release sufficient resources to fund cancellation of IMF debt as well as some debts being paid to the World Bank and other development banks.

Some gold mining companies have argued that such sales could destabilise the world gold market. But governments of gold-exporting countries, including Tanzania and South Africa, two of the biggest gold producers in Africa, have publicly supported sales of IMF gold, as have some creditor countries, including the UK government.

"I'm in favour of [selling IMF gold]. Gold is a major export out of Tanzania and I was worried it might reduce revenues for us, but I have been assured that selling that gold would not drastically affect the price of gold in the world market.... We are asking the major holders in the IMF council to consider this proposal favourably."

HE President Benjamin William Mkapa of Tanzania, speaking at the Jubilee Debt Campaign conference in February 2005.

The IMF itself has stated that the sale of part of its gold is feasible and could be managed so as not to harm the market. What it would do is provide huge benefits for poor countries if the funds were used for debt cancellation.²⁸ Rich governments now have no excuse not to agree to sell IMF gold to fund debt cancellation.

If no agreement on sales of IMF gold to fund debt cancellation is forthcoming, then creditor governments must commit some of their own resources to fund cancellation of IMF debts. So far, only Canada has offered to do this, for a limited number of countries.

²⁶ Most also cover debts being paid to the African Development Bank. We consider these proposals elsewhere, including in Chapters 5 (*Cancel debts in full*) and 6 (*Ensure debt relief means more money*). Details of current proposals are in the Annex.

²⁷ *G7 Finance Ministers Conclusions on Development*, London, 4-5 February 2005. See http://www.hm-treasury.gov.uk/otherhmtsites/g7/news/g7_statement_conclusions050205.cfm

²⁸ 'The IMF, gold sales, and multilateral debt cancellation', S. Kapoor for Debt and Development Coalition Ireland, September 2004.

Other multilateral debts

While the present proposals on multilateral debt relief – including the one already being implemented by Canada, the Netherlands and the UK – cover debts being paid to the African Development Bank, none of them cover other regional development banks, such as the Inter-American Development Bank (IADB). Five of the poorest countries in the world (Bolivia, Guyana, Haiti, Honduras and Nicaragua) will pay over \$3.3 billion to the IADB in the next ten years, unless something is done to cancel this debt burden.²⁹ All unpayable multilateral debt must be cancelled.

Bilateral and commercial debts

Most creditors have already agreed to write off the bilateral debts of those countries that complete the HIPC initiative (18 so far) in full.³⁰ But there are still some creditors who have not. While those countries that have cancelled bilateral debt in full are to be congratulated, those that have not should be ashamed. However, even some participating creditors are limiting those HIPC debts which they are actually cancelling. Among the G8, France, Japan and especially Russia could do more to cancel all debt which they lent before the G8 Cologne Summit in 1999 – especially debts which were lent relatively recently – the so-called ‘post-cut-off date debts’. Within the EU, the same applies to Austria, Belgium, the Netherlands and Spain.

“Our debts seem to be perpetually on the increase. It is a sore that has refused to heal. The more we pay, the more we seem to owe. And our debt has been paid many times over.”

Rachel Ordu, Economic Growth and Development Centre, Nigeria, January 2005

There are also a large number of relatively poor countries which owe each other money. Some could afford to write off the money they are owed, but the G8 could also help to clear these debts by providing some money to pay the creditor countries a small percentage of the original face value of the debt in return for its cancellation: this would help two countries (creditor and debtor) at once. The G8 and other rich countries could also push all their commercial companies and banks to write off debts owed to them by the poorest countries.

Some poor countries, including HIPC countries, are being sued for payment by a few creditors (including commercial creditors), and having to pay out large amounts to settle debt claims – money which should be used for reducing poverty. Civil society organisations have already helped to get lawsuits dropped by the supermarket chain Iceland against Guyana and by Nestlé against Ethiopia. But the G8 should do something themselves, by passing laws preventing such lawsuits in their own courts, and by providing legal technical assistance to the poorest countries to fight them.

Finally, there are – as we have pointed out³¹ – many severely indebted and extremely poor countries which are not even eligible to enter the HIPC scheme. These include Nigeria, (which currently has debts totalling \$28 billion to 15 of the world’s richest governments³²), Haiti (a severely indebted country where four fifths of the population lives below the poverty line³³) and many others. These countries desperately need a way out of debt crisis. It is a scandal that so many desperately poor countries are still paying so much in bilateral debt service each year.

All unpayable debts – to all creditors – must be cancelled.

²⁹ Inter-American Development Bank Debt Service Projections, 2005

³⁰ See Note 9.

³¹ See Chapter 2, *Debt cancellation for ALL countries that need it*.

³² *Why campaign for debt cancellation for Nigeria?*, Ann Pettifor for New Start Nigeria, March 2005

³³ *CIA World Factbook 2005*

5. Cancel Debt Stocks, Not Just Service

We are calling for a complete, permanent cancellation of debt, with the debt stock entirely written off from the indebted country's books.³⁴ We want debt written off in such a way that it provides indebted countries with predictable sources of financing to be spent on poverty reduction. We also want debt cancellation that offers a fresh start: this has long been demanded by the worldwide Jubilee movement, and particularly by civil society movements in the South who reject the relationship of indebtedness to rich governments in the North.

However, cancelling debts to multilateral institutions means that those institutions lose out on debt service. So, unless the cancellation is funded from other sources, the institutions will have less money to disburse to poor countries. Creditors have been unwilling to commit to funding the full cost of debt stock cancellation up front. Total cancellation of the multilateral debt stocks of 59 low-income countries³⁵, if paid for up front, would cost as much as \$80 billion.³⁶ But these costs can be spread over time.

“Foreign debt is one of our biggest problems, feeding poverty and preventing an independent development, putting us in a position of eternal poverty and subordination.... You who rule the world's destiny, have in your hands the decision to turn it either into a huge rubbish dump or into a garden.”

CESTRA (Centre for Labour Studies and Investigation), Colombia, open letter to the G8, May 2005*

The US has recently put forward a proposal for the multilateral institutions to cancel 100% of the debt stock owed to them by the HIPC's, but recover lost debt service by taking the money out of these countries' aid allocations. While we welcome this attempt to wipe clean the debt stock of poor countries, we reject any proposal that does not provide the additional funds to pay for this cancellation: this effectively involves making poor countries pay for their own debt relief.³⁷

Some recent proposals have suggested paying for cancellation of debts to some multilateral institutions over time, as each year's payment would fall due. However, the countries actually committing to adopting such an approach – Canada, the Netherlands and the UK – have so far guaranteed only to cancel their share of debt payments for a limited period of 10 years. For these 10 years, debtor nations will not have to make any debt payments – of either interest or principal. At the end of that time, the principal will have been reduced by whatever amounts would have been repaid during the 10 year period – but the rest of the debt remains intact, and payments could recommence.³⁸ This would leave considerable amounts remaining: many loans are due to be repaid over 30 to 40 years. In fact, cancellation of debt service to the World Bank for 10 years would cancel only 30% of the loans.³⁹ This is far from the 100% cancellation that is needed and that governments claim to be offering. Nor does it provide a fresh start or tackle the relationship of indebtedness.

“In 2005, after more than 200 years of independence, Haiti is still a slave of its external debt, a situation that affects our education, agriculture, economy, vulnerable social sectors and even law and order You have a duty to intervene by cancelling external debt.”

Programme for Alternative Justice coalition, Haiti, open letter to the G8, May 2005*

³⁴ See also information in *If not now, when? – Urgent recommendations for a strong and prosperous Africa*, Stephen Rand, JDC, for the UK All Party Parliamentary Group on Heavily Indebted Poor Countries, 2005

³⁵ All countries defined by the World Bank as low-income, with the exception of India.

³⁶ *Paying for 100% multilateral debt cancellation*, S. Kapoor et al for Eurodad, January 2005

* From open letters to the G8 leaders, sent CAFOD, the UK partner of CESTRA and PAJ

³⁷ See also the Chapter 6. *Ensure debt relief means more money for poverty reduction*.

³⁸ The UK proposal states “Beyond 2015, there will be a further review on a country-by-country basis to see if additional debt relief is warranted ... in the context of the continued drive to eliminate poverty.” But there is no guaranteed commitment to fund debt relief beyond 2015.

³⁹ *Paying for multilateral debt cancellation*, S.Kapoor et al for Eurodad, January 2005

Delivering 100% cancellation requires the following:

- Creditor nations cancel debts stock permanently and in full, from fully additional resources.
- If they chose to account for this over time, effectively by cancelling debt service each year as it falls due, the commitment must last for the entire length of the repayment period – up to 40 years if necessary.
- It must also be made clear that these payments are now the responsibility of the creditors and that, from the indebted country's point of view, the debts have been irrevocably cancelled.

6. Ensure Debt Relief Means More Money For Poverty Reduction

The position of the UK-based NGOs working within **MAKEPOVERTYHISTORY** and Jubilee Debt Campaign is that debt relief should provide fully additional financing, in order to enable poor countries at least to meet the costs of achieving the Millennium Development Goals. This requires that the proceeds of debt relief or cancellation should be additional to the aid allocations that recipient countries would have received anyway from bilateral and multilateral donors (which can be expected to increase year on year). A key difference between the various proposals creditor governments have put forward to extend debt relief (see *Annex – Current Proposals* for details) has been the extent to which they provide any additional funding for indebted countries.

“Debt payments to wealthy institutions like the IMF and World Bank rob our countries of resources we desperately need to provide health care, fight HIV/AIDS, provide education, and make clean water available.”

Joint statement by African NGOs meeting in Lusaka, December 2004

UK-Canada-Netherlands proposal

These countries propose cancelling some debt service, and funding this from additional contributions.⁴⁰ This proposal can be seen as additional financing in a concrete sense: these countries will provide extra funds to pay the debt service for a number of countries to the World Bank and African Development Bank, guaranteed for 10 years (although these funds are still being accounted for as part of aid budgets).

If all donors did as these countries propose, guaranteeing additional funds, the 22 heavily indebted countries that presently meet the conditions for this proposal would receive additional debt relief to the tune of \$503m in 2005, rising to \$1.2bn in 2015. (If only G8 countries were involved, this would provide \$357m in 2005, rising to £817m in 2015.)

At present, the UK-Canada-Netherlands proposal includes only IDA-only countries which meet certain conditions. If this proposal was extended to all poor⁴¹ countries that need debt cancellation on the basis of the financing needed to meet the Millennium Development Goals⁴², this would mean an extra \$8.3 billion for these countries in 2005, and further resources each year until 2015, when they would receive \$7 billion. The total additional funding would be \$81.6 billion over 10 years. (If just IDA-only countries are included, this would total \$1.3 billion in 2005, rising to \$2.1 billion by 2015, bringing in a total of \$16.7 billion over 10 years.) This money would be beyond what they could otherwise have expected in external financing, and could make a huge difference to financing poverty reduction in these countries.

However, the UK proposal leaves the debt stock intact. As we have already explained, this is not acceptable: full debt stock should be written off.⁴³

Norwegian proposal

There are alternative proposals, put forward by Norway and some G8 countries, to make debt relief available to a more restricted group of countries⁴⁴: those which meet certain criteria and which have ‘unsustainable’ debts, defined in terms of the World Bank analysis (rather than on the basis of human development needs). This would provide much less financing. Even if it provided 100% relief for qualifying countries⁴⁵, (which is unlikely as it is aiming to bring debt down to ‘sustainable’ levels rather than cancel it fully) it would provide a maximum of US\$170 million in 2005.

⁴⁰ See *Annex – Current Proposals* for details.

⁴¹ Low income and IDA-only.

⁴² See Chapter 2. This is a total of 62 countries (27 Decision Point or Completion Point HIPC, plus 35 other low-income or IDA-only countries) requiring 100% debt cancellation, and 3 requiring partial cancellation.

⁴³ See also Chapter 5, *Cancel debt stocks, not just service*.

⁴⁴ See *Annex – Current Proposals* for details.

⁴⁵ Post-Completion Point HIPC and non-HIPC with Poverty Reduction Strategy Papers (PRSPs) qualifying as ‘red light’ countries under the new Debt Sustainability Framework of the World Bank and IMF.

It is unclear what proportion of the money required to pay for this relief would come from bilateral aid and what proportion would be financed by reducing the money the World Bank and the African Development Bank allocate to poor countries. And, since no country has actually committed any funding to this kind of proposal, it remains to be seen whether the bilateral contributions would be genuinely 'additional' to existing aid budgets.

“There will never be sustainable human development if the debt is not cancelled. We did not experience the tsunami but we live with these conditions every day. Our people are dying because of debt, because we do not have the money for hospitals and drugs.”

Jack Jones Zulu, Jubilee Zambia, January 2005

US proposal

The US has proposed cancelling 100% of debts to the World Bank and the African Development Bank being paid by the 27 HIPC countries which have reached Decision Point. The financing for this debt relief would be taken directly from these institutions' future disbursements to these countries, in exact proportion to the debts cancelled. While this proposal does offer the debt stock cancellation we are calling for, rather than just service, it would provide no additional financing. Rather, it simply maintains net resources going to these countries at their present levels.

What is needed:

- All G7 countries should cancel debt stock, not just pay debt service. If they choose to account for this as if paying for service cancellation, this must last for the full duration of the repayment period.
- All G7 members should provide their share of any funding for debt relief from funds other than the previously planned aid budget so that it is fully additional. (This could be done by new financing contributions into a Trust Fund within the multilateral institutions.)
- For countries without a long-term plan for their aid increases it may be unclear whether funding is additional (the only fixed point of comparison would be the contributions which each country has already promised to IDA over the next three years). All countries should account for any funds to finance debt relief separately within their aid budgets, which should continue to rise to the agreed 0.7% of GNI (and beyond) **without** counting the amounts dedicated to debt relief.
- Any deal must include cancellation of the debts owed to the IMF and the regional development banks. This should be funded from the sale of some of the IMF gold or increases in donor aid budgets.
- Progress should be made on innovative forms of financing for development – such as global taxation, or an international currency transaction tax, which could both be important sources of additional funds.

We recognise the problems with being sure that funds are truly additional; it can be difficult to know what aid budgets would have looked like if debt cancellation had not been promised. Nevertheless, we strongly endorse the call of indebted governments to ensure that debt cancellation provides more money for poverty reduction – more money which these governments can spend as appropriate on roads, sanitation, water, teachers, clinics, medicines or whatever else their people need. Debt cancellation initiatives that propose financing debt cancellation by drawing on the money impoverished countries would have received anyway do not provide any more money for poverty reduction.

Annex – Current Proposals

The UK-Canada-Netherlands proposal

This proposal consists of:⁴⁶

- A pledge by these countries to pay the their 'share' of the debt service being paid by post-Completion Point HIPCs and non-HIPCs with a World Bank PRSC, on debt to International Development Association (IDA) and African Development Fund (AfDF), during 2005-2015.
- This covers a total of 16.49% of debt service to IDA and the AfDF: UK 10.14%, Canada 3.75%, Netherlands 2.6%.
- The UK government has stated that the commitment would be extended in 2015 if 'additional debt relief is warranted' to ensure debt is sustainable in the context of the need to eliminate poverty.
- The UK supports the use of IMF gold resources to pay 100% of debt service owed by the same countries between now and 2015. Canada is cautious about the use of IMF gold, and is instead proposing additional bilateral resources to fund IMF debt relief.
- It is also important to realise that these are unilateral commitments, as well as a proposal for multilateral agreement. Eg the UK has already implemented its proposal, signing undertakings to reimburse countries for 10% of debt service to IDA and AfDF until 2015.

The US Proposal

This proposal, intimated in August 2004 and announced in February 2005, involves:⁴⁷

- Cancelling 100% of debt stock owed to IDA and AfDF by all HIPC countries, on a flow basis – ie writing off debt service each year.
- Paying for this by reducing the new disbursements from IDA and AfDF to the HIPCs by exactly the same amount as the debt service foregone.
- Providing 100% grant financing from IDA and AfDF for these countries until 2015.
- No proposal for action on debt owed to the IMF.

Norwegian Draft Compromise Proposal

As announced in March 2005, this includes:⁴⁸

- Debt service relief on IDA and AfDF service for any post-Completion Point HIPCs and non-HIPC low income countries (LICs) which have a debt sustainability problem, in the terms of the World Bank and IMF's definition of sustainability⁴⁹.
- Setting qualification criteria for non-HIPCs such as 'implementation of PRSPs'.
- Funding this relief largely (but not fully) through donor contributions rather than by reducing new disbursements from the multilateral institutions.
- Providing only the level of service relief needed to bring service and stock ratios down to levels considered 'sustainable' on the World Bank and IMF analysis (rather than a fixed percentage of relief for all eligible countries).⁵⁰
- Providing relief only for as long as countries exceed these levels.⁵¹
- Providing relief whenever ratios exceed threshold levels due to exogenous factors.
- No proposal on debt owed to the IMF.

⁴⁶ *United Kingdom Proposal for Post Completion Point Debt Relief: Debt Relief Beyond HIPC. Canada Proposes 100 Per Cent Debt Relief for World's Poorest Countries.*

⁴⁷ *The US Proposal: Delivering 100 Percent Debt Relief; and The U.S. Proposal: the Financial Mechanics of Delivering 100 Percent Debt Relief.*

⁴⁸ *Pursuing the MDGs: the Contribution of Multilateral Debt Relief.*

⁴⁹ Specifically, defined as being 'red light' countries under the IDA-14 long-term debt sustainability framework criteria.

⁵⁰ It is not clear how these would be defined. A simpler version would have one standard threshold such as 100% debt-to-export ratio (similar to a Japanese proposal) while a more complex version would use the different thresholds of the World Bank's Long Term Debt Sustainability framework, which would have major risks of moral hazard and misallocation in that it would provide more relief for countries with the lowest Country Policy and Institutional Assessment (CPIA) scores. We assume here that 100% debt service relief is provided.

⁵¹ The proposal refers to countries "resuming payments to the International Financial Institutions (IFIs)" once they have overcome the shocks.

The German Proposal

As drafted in April 2005, this consists of⁵²:

- Debt service relief on debt service to all multilateral development banks (IDA, AfDB, AsDB, IADB) and the IMF.
- For all IDA-only countries which are shown to have a debt sustainability problem in terms of the indicators in the long-term debt sustainability framework, and whose “governance” score (as judged by the World Bank / IMF ‘Country Policy and Institutional Assessment’) has improved in the last three years.
- For HIPC, only available to those that reach Completion Point.
- A periodic review (every 2-3 years) up to 2015 to see whether relief is still provided.
- Funding by additional resources: either via a pooled trust fund or directly by bilateral donors.

Other G8 government proposals

Many G8 governments have supported proposals which are based on similar principles as the Norwegian and German proposals, that is:

- debt service relief;
- eligibility based on having a debt sustainability problem according to the World Bank definition;
- reduction of debt only by the amount needed to reach the World Bank sustainability thresholds; and / or
- basing relief on shocks.

Some of these are more restrictive than the proposals put forward by Norway, but all have a strong link to debt burden and a preference for funding through donor contributions.

G8 countries also remain divided over whether IMF gold should be used for relieving debt to the IMF.

Acronyms

AfDF	African Development Fund
ADB	Asian Development Bank
CPIA	Country Policy and Institutional Assessment [Is this right? Note 50]
G7	Canada, France, Germany, Italy, Japan, UK, USA
G8	G7 and Russia
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IADB	Inter-American Development Bank
IDA	International Development Association (World Bank’s concessional lending arm)
IDA-only	Countries whose World Bank funding comes only through IDA (generally countries with very low average income and no access to private finance)
IFI	International Financial Institution
IMF	International Monetary Fund
LIC	Low-Income Country
MDG	Millennium Development Goals
NGO	Non Governmental Organisation
PEFA	Public Expenditure Financial Accountability
PRSC	Poverty Reduction Support Credit (from the World Bank)
PRSP	Poverty Reduction Strategy Paper

⁵² *Discussion paper for further multilateral debt relief for low-income countries*, German Federal Ministry for Economic Cooperation and Development.

Will The G8 Deliver?

World leaders have the chance to take the steps that could make poverty history. It is vital that they take up these opportunities. Unless debts are cancelled now, poor countries will continue to be deprived of desperately needed resources, and the poor will continue to suffer.

We are calling on the G8 to:

- Cancel, in full, the debts of all countries which require it to meet the Millennium Development Goals. According to our analysis, at least 62 poor countries will need 100% debt cancellation now, releasing \$45.7bn in 2005 that would otherwise be spent on debt service - or \$10bn if only IDA-only countries are considered. Debt service to the African Development Bank and World Bank would have to be cut by \$8.3bn in 2005 (\$1.3bn for IDA-only), falling to \$7bn in 2015 (\$2.1bn for IDA-only).
- Ensure that funding for such debt relief is fully additional to existing aid budgets and the requirement to meet the 0.7% aid target.
- Cancel debt stocks rather than debt service. Debt stock cancellation can be paid for over time, but creditors must make commitments to do so over the entire period of the loan repayment – up to 40 years.
- Ensure that all unpayable debts are cancelled, including multilateral, bilateral and commercial debts.
- Ensure that the money saved from debt relief is spent accountably and transparently, but end economic policy conditionality.

We will assess the G8's progress on debt by asking the following questions. These cover all our demands on debt cancellation, which go beyond the issues focused on in this report. Dealing with all these issues is not enough to solve the debt crisis alone: for instance, the G8 cannot deal definitively with the problems of domestic and commercial debt. But theirs is the primary responsibility for easing the crushing burden of debt, and they can set the tone for other creditors and further debt cancellation.

- Has there been an announcement about debt cancellation?
- Does the announcement contain any new commitments?
- How much additional money will be released to poor countries for poverty reduction?
- Does the communiqué indicate that the creditors will stop demanding specific economic policies as conditions for receiving debt relief?
- How quickly will debt relief be delivered?
- Does it include all or any of the following categories of debt:
 - Debts being paid to the World Bank?
 - Debts being paid to the International Monetary Fund?
 - Debts being paid to the African Development Bank?
 - Debts being paid to other regional development banks?
 - Debts being paid to other multilateral institutions?
 - Bilateral debts not previously included, including export credit debts?
- How many countries does it apply to?
 - Does it apply to every country that needs debt cancellation in order to meet the Millennium Development Goals?
- Does it cancel debt stock or pay debt service?
 - If debt service, does it commit to cancellation in perpetuity or for a limited period?
- What are the actual financial commitments of the G8 to any further debt cancellation?
- Has there been any announcement of a new fair and transparent process to deal with debt, either now or in the future?
- Does the communiqué recognise that debt sustainability should be calculated on the basis of human need, not formulae of budget ratios?
- Does the communiqué recognise that some debt should be cancelled simply because it is 'odious' debt and therefore should not be repaid?
- Is there any promise that steps will be taken to repatriate stolen assets – money in banks, including UK banks, that has been taken corruptly from aid projects and from historic loans?
- Does the communiqué acknowledge that for the most impoverished countries further financial support for poverty reduction should be in the form of grants not loans?

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Jubilee Debt Campaign (JDC) is a coalition in England and Wales of about 70 national organisations, 100 regional and local groups and thousands of individual supporters. It is backed by the UK's leading international development agencies, as well as faith-based organisations, trades unions, environmental organisations and student groups. It raises public awareness and understanding of the poor countries' debt crisis and how it can be solved to improve the lives of the world's poorest people.

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