Forever in your debt?

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UK Chancellor Gordon Brown hailed the G8 debt deal of 2005 as a "historic breakthrough", using the language of 100% debt cancellation. Is it true that after the Gleneagles G8 Summit the debt issue has been taken care of? No. There are still many countries – and therefore many millions of people – who are left outside the official debt initiatives and are forced to pay their creditors at the expense of making social investments in their countries.

The Multilateral Debt Relief Initiative (MDRI) launched at Gleneagles so far covers 19 countries. They will have between 21% and 79% of their debt stocks cancelled. These countries will still, however, have debts in their books. And many countries will receive nothing at all from the initiative. Worthwhile as it was, the Gleneagles deal will leave many developing countries with crippling debts. Indeed, the oft-cited figure of USD 40 billion debt cancellation pales into relative insignificance when compared with the debt stocks of all developing countries of USD 2.6 trillion or the debts of low-income countries of USD 424 billion.

How the deal works

Under the MDRI, eligible countries will obtain cancellation of debts owed to the World Bank, International Monetary Fund (IMF) and African Development Fund.

Eighteen countries can expect to benefit from the International Development Association (IDA) debt cancellation as of 1 July 2006 with a further 25 countries becoming eligible over the next five years. In total, IDA debt cancellation is expected to amount to around USD 37 billion over 40 years. This cancellation will be provided up-front with beneficiary countries receiving a letter from the Bank announcing that they no longer have to meet their IDA debt service payments on loans contracted before the cut-off date of end-2003.

The IMF has approved the debt cancellation for 17 out of the 18 countries that had been promised cancellation at the G8 Summit in Gleneagles in July 2005. Two further countries will also benefit from IMF debt cancellation: Cambodia and Tajikistan. Some USD 3.3 billion of IMF debt has hence been wiped-off the books of 19 countries since January 2006. The adopted cut-off date is end-2004, a full year better than IDA's choice.

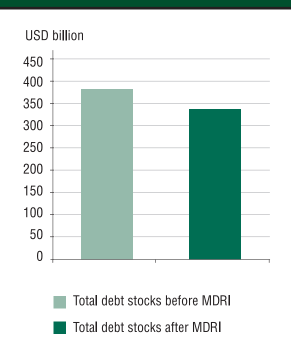
Limitations of the deal

Thus, the G8 debt deal in no way represents 100% debt cancellation: it neither covers 100% of countries in need nor 100% of debts. Debt cancellation has not been extended to all those countries that need it to achieve the Millennium Development Goals (MDGs) by 2015. This agreement covers only 17 impoverished countries' debts to the International Monetary Fund, World Bank, and African Development Fund. Debts to the Inter-American Development Bank (IADB) are excluded, for example. This matters to countries such as Honduras and Bolivia, which owe 40% and 32% of their debts to the IADB respectively.

The deal also remains firmly wedded to the flawed Heavily Indebted Poor Country (HIPC) process – whose list has merely been expanded by a very limited number of potentially eligible countries, i.e., Eritrea, Haiti, the Kyrgyzstan and Nepal – with all of its deeply unpopular economic conditionalities. It is a puzzle how many more extensions and expansions we will see of this initiative before creditors realise that the Initiative as it stands does not offer the solution to unsustainable debts or the global debt crisis. Indeed, what does the MDRI explicitly stand for if not for the acknowledgement that the HIPC Initiative was – is – by far insufficient in order to allow countries to place themselves on a path to achieve the MDGs? And, also, to do away implicitly with all sustainability calculations and methodologies?

Following the MDRI, beneficiary countries will see their overall, aggregated debt burden – in Net Present Value (NPV) terms – decrease from USD 26.5 billion to USD 11.3 billion, and their debt-to-export ratio (also in NPV terms) fall from 139% to 59%. This varies of course from country to country, and even more depending on the region under consideration. The debt-to-export ratio for Uganda is set to decrease by 79%, while for Guyana it will fall just 21%. For the African countries that are included we see a decrease of the debt burden from USD 19 billion to USD 6 billion (with the debt-to-export ratio falling from 144% to 43,9%), while for the Latin American countries (Bolivia, Guyana, Honduras and Nicaragua) the debt burden is reduced from USD 7 billion to USD 5 billion and the debt-to-export ratio goes from 127% to 92%.

CHART 1. Low income countries. Long term debt stock before and after MDRI



In Africa, the picture is mixed: in percentage terms, Uganda will have the largest proportion of its debt cancelled at 79%. This is followed by Ghana at 76%, and Tanzania and Zambia (both at 74%). The two sub-Saharan African countries which will see the least reduction in percentage terms are Mali with a 56% reduction and Mozambique with a 48% reduction, principally because these two countries owe money to creditors other than the IMF, World Bank and African Development Bank. In Latin America, the picture is even gloomier. On average, the four Latin American HIPCs will see less than one-third of their debts written-off thanks to the exclusion of the Inter-American Development Bank, one of Latin America's most important creditors. Guyana languishes at the bottom. It will see its debt reduced by only 21%, Nicaragua by only 23%, Honduras by 28% and Bolivia by 31%. In addition, the net financial gain from the MDRI for individual countries will depend on the quality of the country's policies and institutions as judged by the international financial institutions (IFIs).

Excluded countries

What about those non-HIPCs that urgently need debt cancellation and which are squarely left out of this deal? Again, this deal covers only a very limited number of countries that need debt cancellation urgently if they are to meet internationally agreed development targets. Take Indonesia, a Lower Middle Income Country where more than 50% of its 220 million population live below the UDS 2 poverty threshold, and who owes a staggering USD 130 billion, 60 billion of which to official creditors. Or Ecuador, with a USD 17 billion debt outstanding, with more than USD 6 billion owed to bilateral and multilateral creditors.

When questioned, the World Bank replies consistently that currently no discussions were currently

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underway about debt cancellation for countries beyond the HIPC Initiative (including the four mentioned above). However given that we have already seen four extensions to the HIPC Initiative and two sets of country expansions, one suspects that it may only be a matter of time before the IFIs and the international community more broadly come to realize that impoverished countries such as Kenya and many more also need comprehensive debt cancellations. Sadly however, time is costing lives and wasted opportunities for too many people.

From debt repayability to a rights-based approach

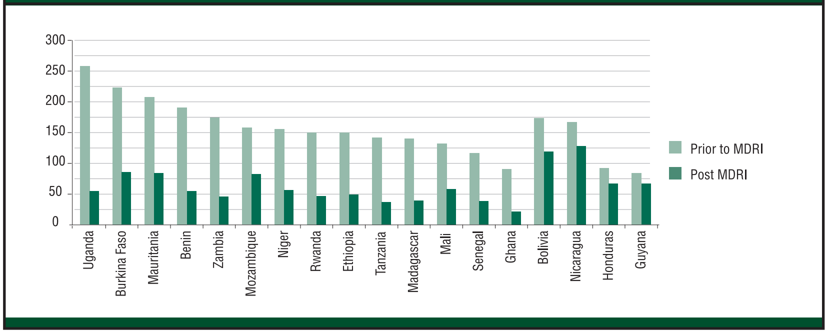
A necessary step toward this is a radical change in the concept of debt sustainability. As it is now, it simply reflects the capacity of a certain debtor to repay its debts, whatever the consequences on its social and economic development. This principle, enshrined in the IFIs' recent Debt Sustainability Framework, simply does not consider the urgent needs many countries face toward the achievement of the MDGs. It also completely ignores the illegitimate origins of many of the debts – contracted for dubious purposes by undemocratic regimes with the full knowledge of the Northern creditors.

Take Nigeria, a young yet poor democracy that has been consistently left out of the HIPC initiative. As a result of intense pressure both from the inside – parliament, government and civil society – and with the support of the UK government , then G8 President, Nigeria got a Paris Club debt deal in 2005. This amounted to a cancellation of 60% of its bilateral debts (USD 18 billion out of USD 31 billion). Yet to obtain this the government was asked to pay - upfront and in cash a massive USD 12.5 billion over just six months. This represents more than what the MDRI is going to deliver for the rest of Africa in the next 10 years! And these are resources flowing from South to North, rather than in the opposite direction, which are badly needed to fight poverty and tackle the many grave problems faced by the largest African country. They are needed in Abuja and Lagos to finance the government's strategy to achieve the MDGs (it exists, it is called the National Economic Empowerment and Development Strategy (NEEDS) which has even been approved by the IMF through the Policy Support Instrument, not in the coffers of Northern export credit agencies, who may well use them to cause further damage in the South.

Looking to the future

The debt stock cancellations that some countries have obtained in recent months go some way to alleviating the problem that Northern creditor institutions provide with one hand and take away with the other. Net transfers on debt were minus USD 240 million during 2004 for sub-Saharan Africa, in other words interest payments were higher than incoming net flows on debt. Total sub-Saharan Africa debt service paid during the same year was a staggering USD 15.2 billion. It is acknowledged by the IFIs that "MDRI countries would still require substantial grant resources to preserve debt sustainability if aid were scaled up substantially to help them meet the MDGs". Governments such as that of Zambia and Uganda greeted the Gleneagles deal by starting to announce extra spending plans – for example on HIV/AIDS treatment. But they had not read the small print of the deal. G8 finance ministers said that countries which obtained debt cancellation should have their World Bank future financing reduced, leaving them with little net gain. Dao Dounantié, Secretary General of the Coalition des Alternatives Dette et Développement (Coalition for African Alternatives Debt and Development), a Malian campaign coalition, told Eurodad this month that "nobody in Mali can yet say what have been the savings from this initiative. Because of this and because the international financial institutions have previously never respected their commitments, we are being cautious. We recognize, however, that – if implemented – this will be a small step forward, particularly because it involves debt stock cancellation".

CHART 2. Eighteen Countries: NPV of Debt to Exports, Post MDRI



Added to this the richest countries are simply not providing the concessional finance that is needed in order to try to attain the MDGs. The fact that donors are falsely inflating their reported Official Development Assistance by inserting all debt cancellations – even those resulting from export credit subsidies of Northern companies operating in Iraq and Nigeria during completely undemocratic periods – is a blatant attempt to delude the public. Eurodad and many other groups are campaigning for a clean-up of aid reporting, and demanding the provision of additional funding.

While certainly worthwhile, and having set an important precedent of debt cancellation, the G8 deal of last year is not sufficiently comprehensive in the debts it covers, or the countries it covers. The problem of clearing the overhang of past debts is by no means over, and campaigners will continue to highlight the deep injustices of governments having to favour creditors rather than their own people. We will also point out the major problems with the international financial system, which is structurally biased toward the rich and strong, and consistently geared against developing countries' ability to reach the MDGs. ■

Further reading

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