G8 Debt Deal One Year On: What Happened and What Next?

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This report was written by Gail Hurley at EURODAD. It is a EURODAD paper but the analysis presented does not necessarily reflect the views of all EURODAD member organisations.

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Delivering on the multilateral debt cancellation deal announced by G8 Heads of State in Gleneagles exactly one year ago has been a bit like the journey between Mopti and Timbuktu: a long, arduous and bumpy ride; at times you think you'll never arrive at your final destination but you get there in the end. On 1 July 2006, the World Bank and African Development Bank will start to deliver debt cancellation to 19 impoverished nations, 15 of which are in Sub-Saharan Africa. This is one full year following final announcement of the plan, during which time these countries have continued to make debt service repayments to these institutions. The IMF delivered its share (US$3.3bn) of the debt cancellation six months earlier: on 6 January 2006. Two further countries also benefited from IMF debt cancellation: Cambodia and Tajikistan[1]. The debt deal means that each year, over the next ten years, these 19 countries will save around US$1.1bn[2] in debt service repayments: money that can be used instead to invest in health, education and infrastructure.

Table 1: Countries covered by the Multilateral Debt Relief Initiative

Countries eligible for debt cancellation as of June 2006	
HIPC completion point countries	Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, Zambia
HIPC completion point countries delayed	Mauritania
Non-HIPCs	Cambodia, Tajikistan (IMF only)
Countries that will be eligible in the future once they complete the HIPC Initiative process	
Decision point HIPCs	Burundi, Chad, Congo Republic, Democratic Republic of Congo, The Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé and Príncipe, Sierra Leone
Countries that have not yet started the HIPC Initiative process	Central African Republic, Comoros, Côte d'Ivoire, Lao PDR, Liberia, Myanmar (Burma), Somalia, Sudan, Togo
New HIPCs	Eritrea, Haiti, Kyrgyz Republic, Nepal

What did the G8 promise?

So what exactly was promised by G8 Heads of State in Gleneagles last year? The deal (now relabelled the Multilateral Debt Relief Initiative or MDRI) promised to cancel the debts of Heavily Indebted Poor Countries (HIPCs) to the IMF, World Bank and African Development Bank once they completed the HIPC Initiative debt reduction programme. The deal is worth approximately US$40 billion over the next 40 years. A further 10 countries could be included in the plan over the next two years bringing the total cost to US$55 billion. At the time, UK Chancellor Gordon Brown described the plan as a "historic breakthrough" and "the most comprehensive statement that finance ministers have ever made on the issues of debt, development, health and poverty". But did campaigners feel this deal really went far enough? Did the deal cover 100% of countries and 100% of debts?

Reactions at the time

Charles Mutasa, Executive Director of the African Network on Debt and Development: "If we say half a loaf is better than nothing then it seems there is some progress. But half-baked solutions have their own limitations. We continue to question how democratic is it to pick just post completion point HIPCs. Moreover the agreement does not address the real global power imbalances. We reiterate our position that the debt crisis needs a lasting solution in which all stakeholders – debtors and creditors have a say".

"The debt package only provides only 10% of the relief required and affects only one third of the countries that need it". **Hassen Lorgat of South Africa's SANGOCO, a national NGO forum in a joint African civil society statement on the Summit's conclusions.**

In Kenya**, Chairman of Parliamentary House Finance committee Mutahi Kagwe** said: "We have always paid our debts in spite of the economic hardships. The principle under which HIPC was created amounts to a miscarriage of justice". **Assistant Minister for Trade Petkay Miriti** described the situation as "very unfortunate indeed. It will be difficult for us because our neighbours will be investing that money in services and mobilizing trade when we are servicing debts".

The declaration at the **5th African Union Summit**, held from 28 June to 5 July, African leaders called for "full debt cancellation for all African nations" to the tune of US$350 billion – a far cry from the US$40 billion promised by the G8.

"The external debt burden of the 4 Latin American HIPCs stands at about US$15bn. The G8 debt deal will cancel about US$4.5bn of this". **Jubilee Foundation, Bolivia**

NGO criticisms of the plan centred around a number of key concerns. These included the fact that many poor countries would remain squarely excluded from debt cancellation such as Kenya, Lesotho, Haiti, Ecuador, Vietnam, Bangladesh and many others. Secondly, many debts were also excluded by this deal. Latin American campaigners were particularly concerned at the exclusion of the Inter-American Development Bank from this deal. Latindadd (the Latin American Network on Debt, Development and Human Rights) calculates that for the four Latin American countries, the G8 debt deal will mean an average external debt reduction of less than 30%. In a joint NGO paper on this problem, NGOs argue that "it is inequitable and illogical that some countries should benefit more than others within the same official initiative"[3] .

EURODAD was also quick to point to the small print of the plan. Closer inspection revealed that for every dollar of debt cancelled, countries would receive a dollar reduction in new concessional finance from the World Bank. New concessional loans from the Bank could then be "won-back" by poor countries on the basis of good policy performance as judged by the World Bank and IMF. EURODAD argued that this reinforces harmful Bank and Fund conditionalities and for countries deemed poor policy performers there would be little net gain from this deal[4]. All campaign groups pointed to the fact that this plan did not address fundamental power imbalances in the international financial architecture. It makes no mention of the underlying mechanisms which perpetuate the debt-poverty trap and does not acknowledge any creditor co-responsibility in the accumulation of unsustainable and in many cases odious and illegitimate debts. An African civil society statement on debt stresses that “creditor nations and the International Financial Institutions (IFIs) need to acknowledge publicly the roles they have played in exacerbating indebtedness in poor countries”. These considerations led Jubilee USA and other campaigners to conclude that the deal represented only a "first step on a long journey”.

Why Cancel Debt?

Debt repayments sap desperately needed resources from the poorest countries. These resources could be better spent on the education, health and rural infrastructure of impoverished nations. Every day, thousands of people die day from poverty through hunger, lack of clean water and disease which debt cancellation could help prevent. The World Bank also notes that excessive debt build-ups act as a constraint to economic growth.

Debt cancellation works! Where partial debt cancellation has been provided, overall the resources have been spent well spent and the poorest countries have reaped the benefits. Between 1999 and 2004 poverty reduction initiatives doubled, according to a 2004 World Bank and IMF study. According to the 2005 Africa Commission Report, Tanzania has increased funding for poverty reduction expenditures by 130% over the last six years. Tanzania has focused the savings to increase education spending and eliminate school fees for elementary school education. This has resulted in a 66% increase in attendance. Uganda has managed to double primary school enrollment rates. In Benin, 54% of the money saved through debt relief has been spent on health including rural primary health care and HIV programmes.

Much more is need if countries are to make tangible progress towards meeting internationally agreed development targets such as those set out in the Millennium Development Golas (MDGs).

A bumpy road

Even though campaigners considered the deal presented by G8 Finance Ministers was far too limited, the rest of 2005 still saw rich country governments and the World Bank squabble over the details. These disputes threatened to seriously derail and delay implementation of the deal. They finally resulted in the temporary exclusion of Mauritania from the deal and a limitation of the World Bank debts covered by the plan.

Fortunately for the first set of 19 beneficiary countries, the Bank confirms that it has received sufficient cash commitments from donors to move ahead with the cancellation. This means that on 1 July 2006, the World Bank will send letters to the governments of the countries concerned informing them that they no longer have to make debt service repayments on all eligible IDA loans.

The final deal – what's included

The World Bank announced that it would adopt a different "cut-off date" from that of the IMF and African Development Bank. What does this mean exactly? It means that the World Bank will only cancel debts contracted up to the end of 2003, whereas the IMF and African Development Bank will cancel debts up to the end of 2004. In cash terms, this means that US$5bn of World Bank debt will be left on the books of the countries currently included in this initiative. In human terms, this will mean too many more lives lost and too many opportunities wasted. As EURODAD commented at the time, "this represents an incredible inconsistency within the same official initiative. But more importantly for the poor countries concerned, it means an awful lot of debt remains firmly excluded from the initiative."

The final road block overcome by campaigners involved the Bank's announcement that it would provide debt cancellation only once annually, on 1 July. This basically meant that for future beneficiary countries, debt cancellation would not be automatic as they reached completion point under the HIPC Initiative. Instead they would have to wait until 1 July of that year (or the following year). They would have to continue to make non-refundable debt service payments to the Bank during this time. Campaigners were outraged that countries would have to wait many months before they received any debt cancellation. After an intense lobby effort by NGOs, the Bank announced that it would deliver debt cancellation every fiscal quarter, so that any country would not have to wait more than a few months.

What's left on the books?

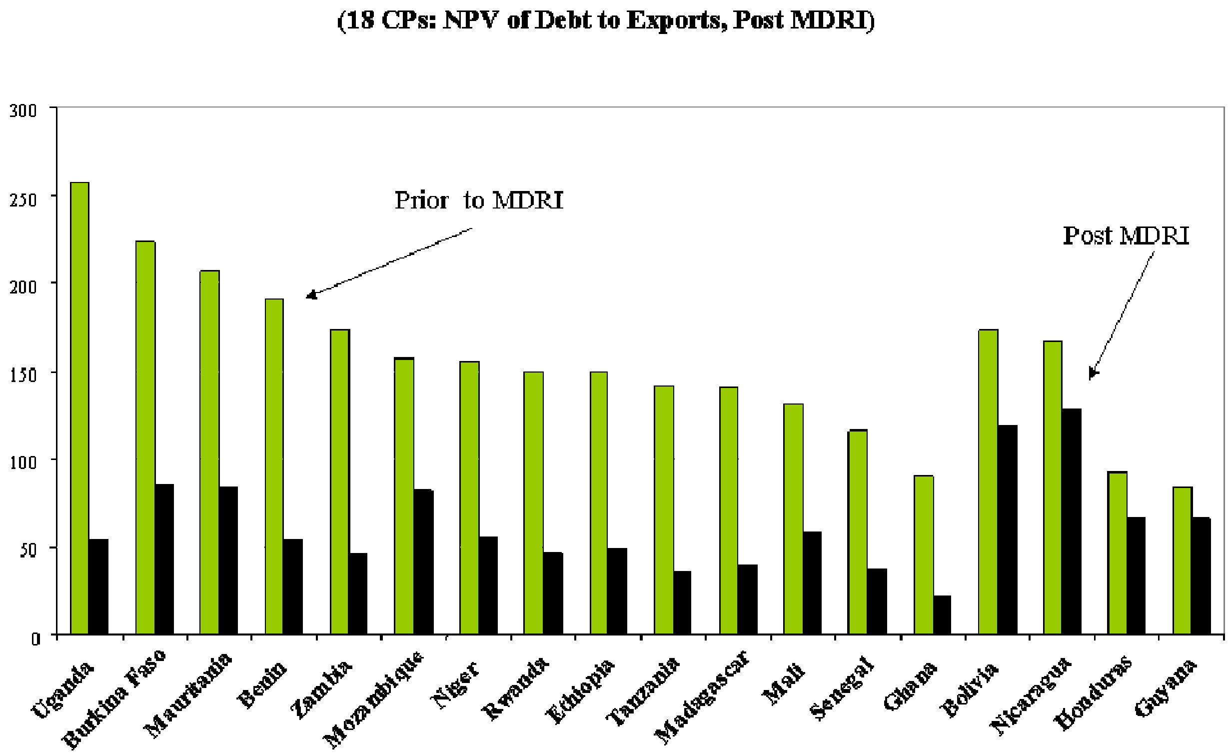
It's been a bumpy ride to get to this point, so what exactly has been cancelled and what is left on the books of these countries? Gordon Brown said in February 2005 that this year's G8 Summit will be known as the "100% debt relief summit". But as we have seen already, the deal does not cover 100% of the countries that need debt cancellation in order to reach the internationally agreed MDGs nor does it cover 100% of debts. While several African countries included in this initiative will indeed receive a major debt reduction, NO country will receive the claimed full 100% debt cancellation.

In Africa, the picture is mixed: in percentage terms, Uganda will have the largest proportion of its debt cancelled with 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 4 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%[5]. These figures mean that these impoverished countries will still be repaying hundreds of millions of dollars to international creditors every year, rather than the welfare of their people.

Tables 2 and 3 contrast the first set of beneficiary countries. They highlight “before” and “after” debt ratios (in terms of net present value of debt to exports) as well as show how much less Latin American countries are set to gain from the MDRI.

Table 2: Net Present Value (NPV) of Debt to Exports, Post-MDRI



Source: World Bank, April 2006

Table 3: Debt Ratios before and after MDRI for the first set of beneficiary countries

18 Post-Completion Point HIPCs: Debt Ratio Pre and Post MDRI
At end-2003, assuming debt cancellation under MDRI

	Prior to MDRI		Post MDRI		
	NPV	**NPV/EXP**	**NPV**	**NPV/EXP**	**Change post-MDRI**
18 CP countries	**26490.6**	**138.6**	**11292.7**	**59.1**	
African CPs	**19116.8**	**143.9**	**5961.1**	**44.9**	
Uganda	1858.6	257.7	392.1	54.4	-79%
Burkina Faso	661.6	223.3	252.9	85.4	-62%
Mauritania	785.4	207.0	317.2	83.6	-60%
Benin	797.4	191.0	227.7	54.5	-71%
Zambia	1958.2	173.7	511.5	45.4	-74%
Mozambique	1352.2	157.5	704.7	82.1	-48%
Niger	578.1	155.4	206.8	55.6	-64%
Rwanda	214.5	150.0	66.6	46.5	-69%
Ethiopia	1550.7	150.0	506.6	49.0	-67%
Tanzania	2234.2	141.7	573.3	36.4	-74%
Madagascar	1466.9	140.2	409.7	39.2	-72%
Mali	1374.0	131.5	609.2	58.3	-56%
Senegal	1915.5	116.5	622.7	37.9	-67%
Ghana	2369.6	90.4	560.1	21.4	-76%
Latin CPs	**7373.8**	**126.6**	**5331.6**	**91.5**	
Bolivia	2896.3	173.4	1989.0	119.1	-31%
Nicaragua	1553.1	167.0	1189.1	127.8	-23%
Honduras	2356.4	92.5	1704.5	66.9	-28%
Guyana	568.1	84.0	448.9	66.4	-21%

GDP data refers to 2003 figures taken from GDF
Source: World Bank staff estimates

As stated earlier, for every dollar of debt cancellation from the World Bank, this will be offset by a dollar reduction in new concessional finance from IDA. Countries will then be allocated new concessional funds on the basis of policy performance (known as the Performance Based Allocation System or PBA). How does this work? Let us take the example of Zambia. In 2006 and 2007, Zambia was scheduled to make debt service payments to the World Bank of US$37.5mn. This has now been cancelled. Zambia's IDA allocation between 2007 and 2009 (which is partly judged by a World Bank staff assessment of the "quality" of the country's policies and institutions) stands at US$282mn. In addition to this amount, Zambia will receive an additional US$6.9mn from IDA over the same period. However from this total amount, US$37.5mn will be deducted (which is equivalent to the amount of debt cancelled). This means that Zambia, over the next three years will receive a total of US$252mn from IDA which is less than the US$282mn the country was originally allocated.

The table below gives details of the net financial gain of the multilateral debt deal for the first set of beneficiary countries.

Table 4: Estimated Impact of MDRI (first set of beneficiary countries)[6]

Countries	IDA allocation FY 2006 - 2008	MDRI relief FY 2007 - 2008	PBA reallocation	Net IDA disbursements
Post completion point HIPCs (figures in US$ millions)				
	Initial figure	*Minus*	*Plus*	*Final figure*
Benin	254	27	6	233
Bolivia	179	45	4	138
Burkina Faso	399	24	10	386
Cameroon	288	6	7	290
Ethiopia	2,139	27	53	2,165
Ghana	783	101	19	702
Guyana	27	6	1	21
Honduras	201	30	5	176
Madagascar	683	63	17	636
Mali	344	45	8	308
Mauritania	144	17	4	131
Mozambique	549	33	14	530
Nicaragua	168	12	4	161
Niger	212	17	5	200
Rwanda	296	6	7	297
Senegal	320	62	8	266
Tanzania	1,586	90	39	1,535
Uganda	1,103	93	27	1,037
Zambia	282	38	7	252

At the time of the announcement by G8 Finance Ministers in June 2005, ministers in Nicaragua and Zambia declared that they would now be able to boost health and education expenditures thanks to this cancellation. The figures show however that the net financial impact of last's year's "momentous" deal is much less than many Southern Governments originally thought.

Moreover, massive increases in global oil prices also threaten to wipe-out modest gains for those Heavily Indebted Poor Countries that are net importers of oil. Nicaragua, Ghana and Mali are three such country examples. According to a recent paper by Jubilee USA and Oil Change International, in Nicaragua, the bill for annual oil imports now amounts to an incredible 66% of the value of the country's exports.[7] In Ghana, Dr. Yakubu Zakaria of Foundation for Grassroots Africa commented that the oil price increases have resulted in "major chaos in Ghana. The rise in all food prices is very serious", he said. Thirty-eight of the world's most impoverished countries are net oil importers, twenty-five of which import all of their oil.

Where now for campaigners?

Governments may be tempted to argue that "debt is done" thanks to Gleneagles. But many more countries urgently need immediate debt cancellation. In total, low-income countries are indebted to the tune of US$380bn and middle-income countries to the tune of US$1.66 trillion[8]. Seen in this context, Gordon Brown's "historic breakthrough" of US$40bn seems a somewhat more modest achievement.

However it is significant that thanks to campaigners' persistent pressure this cancellation will be delivered free of World Bank and IMF conditionalities. At completion point, countries will receive a letter from these institutions advising them that they no longer have to make debt service repayments on eligible loans. This means that governments can decide how and where to spend the cash they save (which in turn promotes downward accountability) and will not be subject to on-going monitoring of their policy performance from Washington DC in order to obtain this relief. The lack of on-going outside monitoring represents a remarkable departure from HIPC since one of the core foundations of the initiative is that countries must remain "on-track" with their IFI-sponsored reform programmes in order to benefit from debt relief.

In a number of countries civil society organisations have established national mechanisms to track the budgeting and spending of the money their governments do not have to spend on multilateral debt servicing, including money saved from this 2005-2006 initiative. Initiatives are underway in, among other countries, Bolivia, Ghana, Mali and Uganda. In some cases, however, civil society groups are having difficulties in determining what savings will appear in their budget and when. Even six months after the IMF announced that it had agreed its cancellation there is still no clarity in Mali, for example, on the budgetary implications for this year. Dao Dounantié, Secretary General of the Coalition des Alternatives Dette et Développement, 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 recognise, however, that – if implemented – this will be a small step forward, particularly because it involves debt stock cancellation"[9].

Another important precedent has been set with the inclusion of Cambodia and Tajikistan for IMF-only debt cancellation. If non-HIPCs can be included on the list for multilateral debt cancellation, then why not other countries in the future? Many more countries urgently need debt cancellation if they are to meet international development targets such as the MDGs. Indeed many of them should already qualify for full or partial debt cancellation because their debt ratios exceed the "debt sustainability threshold" as defined by the World Bank and IMF. Two such country examples are Ecuador and Peru.

According to recent data obtained by EURODAD from the World Bank, the Bank reveals that, even by its own very restricted definition of debt sustainability, both Peru and Ecuador can be defined as unsustainable. Peru's NPV debt-to-exports stands at around 265% and Ecuador at about 210%. The Bank defines debt sustainability as 150% NPV of debt-to-exports. However because both are considered "middle-income" countries, neither qualifies for any multilateral debt cancellation. Both have very high incidences of poverty and NGOs within the region also have very serious complaints of illegitimate debt and fraud connected to many of the debts both of these countries continue to service.

In addition, campaigners in Latin America, North America and Europe have also been active over the last six months to try to secure political agreement on expansion of the G8 debt deal to include debts owed by the poorest Latin American countries to the Inter-American Development Bank. Negotiations are moving forward (albeit too slowly for many groups) and it is significant that there seems to be fairly broad political support for IDB debt cancellation among many of the Bank's major shareholders. NGOs will continue to keep-up the pressure over the coming months until this cancellation becomes a reality.

Despite these modest achievements it would be dangerous to underestimate how much still remains to be done on debt. Most importantly for many debt campaign groups in the Global South, remarkably absent from last year's jubilant announcement was any acknowledgement by creditors of the key role they have played in the accumulation of unsustainable and illegitimate debt burdens in the South. Governments in the North, as well as the international financial institutions they control, have in the past lent large amounts of cash to some of the world's most notorious and despised depots such as Mobutu in Zaire, Abacha in Nigeria, Marcos in the Philippines, Suharto in Indonesia and Hussein in Iraq. These loans were extended to these dictators out of geopolitical strategic concerns and with full knowledge of the nature of the regimes in place at the time. Yet it is successor governments and their peoples that are saddled with these "odious" debt burdens. So while taxpayers in the North may legitimately ask whether aid money and the cash freed-up via debt cancellation will be spent on the poor, it is equally legitimate for taxpayers in the South to ask why they should pay-out scarce public funds servicing loans from which they never benefited. Debt campaigners around the globe are united in calling for an urgent international focus on the critical issue of illegitimate debt. These debts must be cancelled and principles of creditor co-responsibility must be enshrined within the global financial architecture. Campaigners will continue to maintain that until both debtors and creditors have an equal say in the design of solutions aimed at preventing and solving sovereign debt crises, there can be no long-term resolution of the global debt crisis.

Useful references

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Endnotes

[1] These two countries will not however benefit from World Bank debt cancellation, since technically they are not classified as Heavily Indebted Poor Countries (HIPCs).
[2] EURODAD calculations based on data from Debt Relief International, 2005
[3] See "Justice for Latin America on IDB debts", Joint NGO paper, January 2005: http://www.eurodad.org/articles/default.aspx?id=682
[4] See Eurodad, "Devilish details: implications of the G7 debt deal", June 2005: http://www.eurodad.org/articles/default.aspx?id=628. See also Debt Relief International for further explanation: http://www.hipc-cbp.org/files/en/closed/External%20Debt%20Strategy/External%20Debt%20Reference%20materials/MDRI_May_2006_En_.doc.
[5] All data from World Bank staff estimates
[6] EURODAD calculations based on Debt Relief International data. See: http://www.hipc-cbp.org/files/en/closed/External%20Debt%20Strategy/External%20Debt%20Reference%20materials/MDRI_May_2006_En_.doc .
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[9] Interview with Alex Wilks, 22nd June 2006