

## The Unfinished Agenda on International Debt

### What did the 2005 debt deal achieve?

### What remains to be done?

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#### Introduction

In July 2005, world leaders gathered in Gleneagles, Scotland, and announced a plan to cancel debts, increase foreign aid, and make changes to international trade policy. At the time, Jubilee USA Network responded to the announcement by the G-8 on additional debt cancellation by welcoming it as an important first step on a long journey. One year later, it is important to look back and take stock. On the positive side, some debts have been cancelled for 21 nations, and the money is being put to good use. But much more remains to be done: 9 out of 10 people in the developing world will see no benefit from the 2005 debt deal. A broader, Jubilee cancellation of debts is needed to meet the Millennium Development Goals and to cancel odious and illegitimate debts. This policy brief looks at the progress of the past year, and outlines the unfinished agenda on international debt ahead of the 2007 Sabbath Year.

#### What Has Been Achieved?

The 2005 debt agreement was an important and precedent-setting step. For the first time, the IMF and World Bank were forced to accept the principle of 100% debt stock cancellation, a longtime demand of the Jubilee USA Network and global debt and development advocates.

One year after the agreement, a total of \$36 billion of multilateral debt has been cancelled for 21 countries, resulting in an average of \$875 million per year in savings. This figure could eventually rise to more than \$55 billion in 42 countries as more countries become eligible for the Multilateral Debt Relief Initiative.

The IMF cancelled \$3.6 billion in January 2006 for the first qualifying 19 countries, which will cover debts due over the coming 10 years; two additional countries, Cameroon and Mauritania, have since qualified for IMF debt cancellation. And on July 1, 2006, the World Bank provided debt cancellation for an initial 19 countries, worth \$26 billion over 40 years. Also in July, the African Development Fund committed \$5.5 billion in debt cancellation for 14 countries.

#### *Debt Relief is Working*

Debt relief now has a ten year track record of freeing up resources to fight poverty. The impact of the latest round of debt cancellation is already becoming clear:

- In Ghana, the money saved is being used for basic infrastructure, including rural feeder roads, as well as increased expenditure on education and health care.
- In Tanzania, the government is using the money saved to import vital food supplies for those affected by drought.<sup>1</sup>
- In Burundi, elimination of school fees in 2005 allowed an additional 300,000 children to enroll.
- In Zambia, 4,500 new teachers have been hired and fees for rural healthcare have been abolished.

#### Countries that have received 100% IMF/World Bank debt cancellation (as of July 1, 2006)

Benin	Mauritania
Bolivia	Mozambique
Burkina Faso	Nicaragua
Cambodia (IMF only)	Niger
Cameroon	Rwanda
Ethiopia	Senegal
Ghana	Tajikistan (IMF only)
Guyana	Tanzania
Honduras	Uganda
Madagascar	Zambia
Mali	

Debt cancellation is making a real difference in peoples' lives.

But despite claims that the 2005 debt deal represented "100% debt cancellation," the reality is that the agreement did not cancel 100% of the debt stock for any of the beneficiary countries. While a country like Uganda has seen nearly 70% of its debt stock erased by the 2005 debt agreement, Mozambique has seen only 48% of its total debt stock cancelled. In Latin America, the situation is worse: Nicaragua has seen only 23% of its total debt stock cancelled as a result of the deal. Because the debt deal only applies to World Bank debts accrued through the end of 2003 and IMF debts through the end of 2004, and because the deal does not cover debts claimed by all creditors, many of the recipient countries continue to make debt and interest payments at the expense of the health and well being of their citizens.

## The Unfinished Agenda

There is an unfinished agenda on international debt. The Jubilee movement has declared 2007 a Sabbath Year on debt, seven years after Jubilee 2000. The Sabbath year is an opportunity to look at how far we have come since Jubilee 2000, and to see how far we still must travel. The Sabbath year is an opportunity to generate the political will for a prophetic, Jubilee cancellation of debts.

### Unfinished agenda #1: Cut the strings

*"It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan, and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people."*

– G-8 Communiqué, July 8, 2005

In July 2005, world leaders made an encouraging statement about the need for countries to decide their own economic policies. But one year later, little has changed. Too many conditions on World Bank/IMF loans and debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative reflect the discredited "Washington Consensus" economic model. This model – of indiscriminate trade liberalization, privatization, and implicit restrictions on health and education spending – has exacerbated poverty, and helped create the conditions for corruption.

Some examples of harmful economic conditions that countries must adhere to qualify for debt cancellation:

- In Nicaragua, the government was directed by the IMF and World Bank to privatize electricity which resulted in the tripling of prices and decreased access for the poor in a country where only half the population had electricity to begin with.
- In Malawi, the country's food crisis has been exacerbated by a combination of IMF fiscal policy and restructuring of the agricultural sector.

The IMF/World Bank's debt relief program, HIPC, needlessly delays debt cancellation at the expense of human needs. The latest clear example of this is Haiti – the most impoverished country in the Western Hemisphere. The World Bank is projecting that it will not see the benefits of 100% debt cancellation until 2009, because it must first demonstrate its ability to meet economic conditions like those described above. It's time to cut the strings so that benefits from debt cancellation reach those who need it most.

### Unfinished agenda #2: Include all the creditors

The 2005 debt deal cancelled debts to the IMF, the World Bank, and the African Development Fund. It ignored formidable debts to regional development banks – including the Inter-American Development Bank (IDB) and the Asian Development Bank. It also did not cover some bilateral debts, nor debts owed to the private banks.

Of particular concern is the exclusion of debts to the IDB by the Latin American nations in the agreement. As a result, the Latin American countries that qualify for the G-8 debt deal – Bolivia, Guyana, Honduras, Nicaragua, and Haiti – will pay almost \$1.5

## The Impact of Debt Relief in Zambia

Kafue, Zambia: Peter Chibize wiped the dust off a bench with a handkerchief and waited, agonizing over how he would convince the doctor to give him free treatment for his chest pains, headache, and bad cough. He had delayed his visit to the Nangongwe clinic in Southern Zambia because he could not pay medical fees until excruciating pain finally forced him to make the 12 mile walk from his village.

"Next," a nurse shouted from the consultation room and the 67-year old nervously rose. Soon he was beaming when he was told that he did not have to pay for his treatment. Zambia scrapped health fees on Saturday, one of the first benefits to flow from debt relief granted to African countries last year by the G8 group of wealthy nations.

"It was like a dream to me," Chibize said. "Not to pay anything when you visit a clinic is amazing."

Reuters, April 13, 2006

billion in debt service over the next five years to the Inter-American Development Bank. With debt cancellation this money could be used to fight poverty and provide education and health care for millions of people.

### *Unfinished agenda #3: Cancellation of debts for all countries that need it*

Many more countries – beyond the initial 21 countries to benefit from the G-8 deal – and even beyond the 42 nations that may eventually become eligible for debt cancellation – require debt cancellation to meet human development needs and targets such as the Millennium Development Goals. Too many of the impoverished nations excluded from the G-8 deal continue to pay more in debt service than they spend on critical social needs. For instance, according to the World Bank:

- Kenya, with a total debt of over \$7 billion to the World Bank and rich nations, pays hundreds of millions each year in debt service while 1.3 million people are living with HIV/AIDS and many lack adequate treatment.
- Sri Lanka, still recovering from the December 2004 Tsunami, has a debt of more than \$8 billion, and an annual debt service bill of \$493 million. Though payments have been deferred on some debts by the Paris Club after the Tsunami, Sri Lanka must continue to service its multilateral debt while 29% of its children are malnourished.
- Indonesia, the nation hit hardest by the 2004 Tsunami, has debt of more than \$132 billion (much contracted under the dictator Suharto), of which \$28.4 billion is to multilateral creditors. Debt service payments to the World Bank amounted to \$1.9 billion last year while 40% of Indonesians live on less than \$2 per day.

The 2005 debt deal will relieve almost \$1 billion a year in debt payments – and this is progress. But it is a drop in the bucket compared to the need. Oxfam estimates that annually \$10 billion is needed to get every child into school, and \$27 billion to provide basic health care for all.

New research from the New Economics Foundation in London finds that 107 countries need some form of debt cancellation just to meet their people's basic needs.<sup>2</sup> And many of these countries will find it impossible to meet the Millennium Development Goals (MDGs) without 100% debt cancellation. In a recent report, ActionAid International, Christian Aid, and Jubilee Debt Campaign (UK) found that at a minimum 62 low-income countries would need 100% debt cancellation to have any hope of meeting the MDGs<sup>3</sup>. Meanwhile, UK Chancellor of the Exchequer Gordon Brown has indicated that 67 countries require debt cancellation.<sup>4</sup> Combining the lists of the UK charities and that of the UK government, at least 74 nations require immediate, 100% debt cancellation for human development.

### *Unfinished agenda #4: Audit the IFIs to assess the legitimacy of debts, then cancel illegitimate debt*

Jubilee USA Network and debt campaigners across the globe are increasingly focused on the illegitimate origins of much of the debt of countries in Africa, Asia, and Latin America. Campaigners in these regions are questioning whether much of the debt of the South is really "owed" in the first place, and a growing number of governments are undertaking official audits to assess the legitimacy of debts.

Debts are odious if they result from loans contracted without the knowledge or consent of the population or the government used the money for personal purposes or to oppress the people. In cases where borrowed money was used in ways contrary to the peoples' interest, with the knowledge of the creditors, the creditors may be said to have committed a hostile act against the people. Creditors cannot legitimately expect repayment of such debts. A similar argument was made by the U.S. government in arguing for the cancellation of Iraq's debt.<sup>5</sup>

*Total cancellation of the debt of 14 African countries is an important step. We must ensure that the principle of debt reduction for all African countries is firmly laid down, since it is all African countries that are crushed, under similar conditions, by this debt.*

– Alpha Oumar Konaré, chairperson,  
African Union Commission, July 2005

## **Odious debt in Nicaragua**

The debt of Nicaragua is a good example of an odious debt. Much of Nicaragua's current debt burden was incurred under the Somoza family's military regimes, with the most notorious dictator being Anastasio Somoza Debayle. Somoza Debayle's rule between 1967-79 was marked by political repression of media and opposition voices, deteriorating economic conditions, and embezzlement of international aid funds. Somoza Debayle was forced to flee amid popular unrest in 1979. Despite these circumstances, between 1961 and 1979, the Inter-American Development Bank (IDB) lent \$321.6 million to Nicaragua. Yet Nicaragua has been compelled by the IDB and other international financial institutions to continue paying interest on this odious debt.

In Indonesia, careful analysis of World Bank and other documents has found that nearly a third of the \$30 billion in loans from the World Bank to Indonesia between 1965 and 1998 was stolen by the ruling elite affiliated with then Indonesian dictator Suharto.<sup>6</sup> Debts contracted by the apartheid regime in South Africa, by Mobutu Sese Seko in what is now the Democratic Republic of Congo, Ferdinand Marcos in the Philippines, the military junta in Argentina, and many others should also be considered odious.

Illegitimate debt is a broader category of debt and refers to debts that cannot be reasonably or morally ascribed to a country. This includes debts arising from failed projects, projects which were never completed or were not implemented due to corrupt practices, and projects whose primary purpose was channeling funds to external actors (such as consultants and multinational corporations). It is also an expansive historical category that considers the environmental and social damage done to indebted countries over the past centuries. The House of Representatives in the Philippines passed a resolution in 2004 to engage in a public audit to determine the origins of their debt, especially that which was contracted under dictator Ferdinand Marcos, to examine its legitimacy.<sup>7</sup> The government of Ecuador recently launched an audit as well. It is time for an audit of lending by governments and international financial institutions to determine the legitimacy of past lending.

### *Unfinished agenda #5: Responsible finance standards to avoid a new debt crisis.*

To avoid the recurrence of a global debt crisis, we must also watch closely the amount of new debt being accumulated. Impoverished countries must be able to access grant financing rather than new lending in order to break the "lend and forgive" cycle.

The fact that some HIPC nations are now slipping back into debt points to the need for the development of responsible financing standards. Under such standards, creditors and aid/loan recipients alike would adhere to standards to assure transparency and accountability, human rights, and sustainability. Such independently-developed responsible financing standards for new aid and loans would assure transparency and accountability, the avoidance of new odious debt, while avoiding public support for extractive industry projects which are detrimental to the natural environment.

### *Unfinished agenda #6: A comprehensive, civil society-led approach to challenge corruption*

Corruption is a serious problem. Even with the ten-year record of success of debt relief going to fight poverty, as we campaign for a broader cancellation of debt we must be vigilant to assure resources freed up by debt cancellation get to those who need it the most. Some effective strategies to assure this include:

- **Support civil society.** Civil society is the best equipped to assure accountability in the use of debt relief proceeds. Civil society on the ground is best placed to pressure their own governments, and should be supported in that work.
- **Look to successful models already in place.** In Uganda, extra resources from debt relief are channeled through the Poverty Action Fund, which is overseen by representatives from government, national NGOs, churches, unions and international organizations. In Nigeria, the new Virtual Poverty Fund plays a similar role.
- **Peer-Reviewed Trust Funds.** One of the ideas being discussed by debt campaigns from both South and North is setting up of Trust Funds under the auspices of bodies with unquestionable integrity and accepted by civil society which would separate the financing and delivery mechanisms of debt relief.

### *Unfinished agenda #7: Sell IMF gold, drop the debt.*

There are a number of options to finance broader debt cancellation at little or no cost to the taxpayer. Jubilee USA Network supports financing debt cancellation through some sale of the IMF's gold reserves, using the accumulated and future profits of the World Bank (IBRD), and drawing down the harmful PRGF/structural adjustment lending arm of the IMF.

An April 2005 IMF report on the possibility of IMF gold sales submitted to the G-7 demonstrated that gold sales could take place without negatively impacting the world market price for gold. The IMF suggested that such sales could take place either through the existing Central Bank Gold Agreement or through direct sales to countries' Central Banks. Officials from the gold producing countries of South Africa and Tanzania have publicly supported such an initiative. The HIPC Finance Ministers (including gold producers) issued a statement in March 2005 that also supported the use of IMF gold reserves to finance debt cancellation.

### *The Unfinished Agenda in 2007: The Sabbath Year*

Inspired by the Jubilee vision of liberation and fullness of life for all, people of faith and conscience around the world are calling their political leaders to observe a Sabbath Year in 2007, seven years after Jubilee 2000. The Sabbath year offers an historic opportunity to look at the progress we have made, celebrating the life-saving impact of debt cancellation. Above all, it offers us an occasion to act on the unfinished agenda, and once and for all, to elevate life over debt.

## Sources / Resources for More information

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### About Jubilee USA Network

Founded in 1997, Jubilee USA Network is the US arm of the international movement working for impoverished country debt cancellation and right relationships between nations. Jubilee USA is a network of more than 75 religious denominations, diverse faith communities, environmental organizations, community groups, research institutes, and solidarity organizations. Jubilee USA engages in public education and mobilization, research and policy analysis, and advocacy.