

The G-8 Debt Deal: First Step On A Long Journey

By Debayani Kar and Neil Watkins | June 21, 2005

Jubilee campaigns and debt cancellation advocates can be proud of their efforts. The Finance Ministers of the eight rich country governments as represented at the Group of 8 (G-8) have announced a deal on 100% debt cancellation of International Monetary Fund (IMF), World Bank, and African Development Fund debt for some impoverished nations.

But much more work remains to be done to achieve the full Jubilee vision of debt cancellation for all impoverished countries and countries in crisis, without harmful economic conditions.

The debt deal enacts 100% cancellation to these creditors for 18 countries in the Highly Indebted Poor Countries (HIPC) Initiative. The other 20 countries that are part of the HIPC Initiative will be eligible for debt cancellation on much less favorable terms: only after reaching the “completion point” in the HIPC Initiative; to reach this point, these nations must adhere to economic policy conditions which have been detrimental to growth and poverty eradication. The HIPC Initiative was set up by the IMF and World Bank to address the severe debt burdens of impoverished countries. The limited debt relief delivered under HIPC created the need for this G-8 agreement.

Efforts by campaigners and people of faith and conscience all across the U.S. and around the world over the past several years helped result in this important first step on debt.

Precedents Set

Several important precedents were set by the G-8 agreement. First, the principle of 100% multilateral debt cancellation was established. Up until this point, the HIPC Initiative allowed only partial relief – on average 33% reductions in debt service payments for eligible nations.

Second, the debt stock cancellation approach won out over a more limited approach put forward by the UK government for debt service relief. The UK proposal would have meant 100% debt service relief rather than full stock cancellation, and only for the next 10 years. The UK government would have paid debt service on behalf of the impoverished nations, and then revisited the situation in 2015. But the debt stock cancellation approach favored by the US carried the day.

Another important step was inclusion of debt of the qualifying countries to the IMF, which had been in danger of not being included. In April the U.S. government had taken IMF debt cancellation off the table at the G-8 negotiations due to their opposition to utilizing IMF gold sales to finance

that cancellation. Campaigners mobilized to highlight the unacceptable nature of this important missing piece, which helped to include IMF debt in the final G-8 deal.

It is important to acknowledge victories when they happen. But it is important to put the G-8 deal in proper perspective. The G-8 deal on 100% debt cancellation, though a critical first step, falls well short of what is necessary to conclusively end the debt crisis facing impoverished nations. There have unfortunately been many premature announcements in the media claiming that the G-8 deal represents full debt cancellation for Africa and the global South.

More Work Ahead

After this weekend, our work is not done. Too many impoverished nations in Africa, Asia, and Latin America will continue to pay more in debt service than they spend on health care and education.

Nigeria for instance will continue to spend \$1.7 billion a year on debt service payments. Last year, this amount devoted to debt service payments was five times what Nigeria spent on education and 13 times that spent on health. The four Latin American nations included among the 18 beneficiaries – Bolivia, Guyana, Honduras, and Nicaragua — will still pay a total of almost \$1.4 billion in debt service over the next five years to the Inter-American Development Bank (IDB). The government of Guyana put out a statement Tuesday urging the full cancellation of their IDB debt.

For the 20 HIPC countries beyond the 18 that have now qualified for cancellation, it could take years before they become eligible for cancellation. After all, it took the 18 countries included in the G-8 proposal eight years to satisfactorily implement the harmful economic conditions mandated in the HIPC process and thereby reach “completion point”. In order to progress to these points, nations must draft and have the IMF/World Bank approve Poverty Reduction Strategy papers (PRSPs) and be in compliance with conditions on other World Bank and IMF loan agreements, including the Poverty Reduction and Growth Facility (PRGF) of the IMF. PRSPs and PRGF loans contain hundreds of policy conditions that

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tion. Jubilee USA and social movements oppose the linking of debt cancellation to countries' implementation of such economic policies.

These economic policies include privatization of government-run services and other entities, increased trade liberalization, and budgetary spending restrictions, as mandated by the IMF and World Bank. These policies have not been proven to increase per capita income growth or reduce poverty as found in research by the Center for Economic and Policy Research. Jubilee USA and social movements clearly call for these conditions and polities to be abandoned.

Left Out of the Deal

Beyond the 38 countries contained in the HIPC Initiative, there are dozens of other countries in urgent need of 100% debt cancellation that the G-8 deal leaves out. As the Jubilee Debt Campaign and Christian Aid have identified, there are 62 low-income countries that need full debt cancellation to meet the Millennium Development Goals (MDGs). The \$56 billion in debt stock being cancelled under the current G-8 agreement amounts to less than 10% of the total external debt of all low-income countries that need 100% cancellation to meet the MDGs. The World Bank itself identifies 26 middle-income countries as having "severe" debt burdens, including Indonesia and Ecuador. Governments in non-HIPC countries such as Kenya have expressed in recent days their disappointment in being excluded from the G-8 deal.

Jubilee South identifies many more countries that require the cancellation of their odious or illegitimate debts. In advocating the cancellation of Iraq's debt, the U.S. government had made the argument that loans contracted by undemocratic regimes which worked to the detriment of their populations should be annulled. This odious debt argument applies to 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 more.

Some G-8 nations have argued they have limited the country list because further cancellation is unaffordable. But

One financing option that had been proposed by the U.K. government was the limited sale of the IMF's gold reserves, which the IMF demonstrated as being feasible in a March report. Another potential resource at the international financial institutions is the accumulated and future profits of the World Bank. Drawing funds from the IMF's low-income lending arm is another possibility, which apparently the U.S. considered during the course of the negotiations.

None of this should take away from the significance of the G-8 deal for the 18 countries that qualified for 100% cancellation. Debt relief to date has worked. The limited debt relief so far has doubled poverty alleviation expenditures in the countries that received it. Savings from debt relief have more than doubled school enrollment in Uganda, provided 3 extra years of school for Honduran children, and provided resources to fight against HIV/AIDS in Mali, Mozambique, Senegal and Cameroon. 100% debt cancellation for 18 countries means real resources for real people.

But as Archbishop Njongonkulu Ndungane of South Africa noted: "Our objective is a clean slate - a total cancellation of odious and unpayable debts owed by African countries." The G-8 deal has fallen short on this and other measures, and the global Jubilee movement will continue to work to break the chains of debt in the global South. While we celebrate an important step forward, only full debt cancellation will fulfill the Jubilee vision of a world where external debt no longer diverts resources from impoverished people or constrains policy choices.

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For a full analysis of the G-8 deal, see www.jubileeusa.org.

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