EURODAD
European Network on
Debt and Development

DEVILISH DETAILS:

IMPLICATIONS OF THE G7 DEBT DEAL

EURODAD NGO BRIEFING

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Executive Summary

This weekend's debt deal by G7 Finance Ministers received massive media coverage in South and North alike. The determined efforts of debt campaigners around the globe undoubtedly pressured Northern Governments and the IFIs to look seriously at the debt issue. It is because of us that governments and officials were forced to recognise that existing debt relief initiatives were wholly insufficient and that a new deal had to be struck. While the final deal had some better features than had been expected recently, campaigners need to be very clear about what this deal actually represents and its serious limitations. There is broad agreement among civil society organisations that the deal doesn't go nearly as far as the overblown rhetoric which accompanied its release. And that it has some worrying strings attached.

On the positive side, the final deal does include IMF debts and does offer permanent debt stock cancellation. There is also an indication that the country list may grow from its current very limited number.

The deal as presented by G7 Finance Ministers last weekend covers 18 countries, i.e. those which have reached 'completion point' under the Heavily Indebted Poor Countries (HIPC) Initiative. A further 9 countries – currently at the HIPC 'decision point' could become eligible for this deal over the next couple of years. Other countries could also conceivably be included since work is reportedly underway on an expanded list of HIPC countries. See annex for the full HIPC listing with countries' status under the initiative.

Of the 18 countries covered, the proposed deal is not nearly as generous as G7 Finance Ministers would have us believe. If we take the text of the ambiguous and vague communiqué at face value, the 18 countries involved will receive dollar for dollar reduced aid from the International Development Association (IDA). To receive new IDA flows, they will then have to comply with controversial World Bank and IMF conditions and policy performance criteria. And the G7 statement implies that a new layer of anti-corruption/good governance conditions may be added.

In sum, the deal does not represent the *"historic breakthrough"* claimed by UK Chancellor Gordon Brown or *"the most comprehensive statement that finance ministers have ever made on the issues of debt, development, health and poverty"*. A coalition of UK NGOs has calculated that, rather than the announced "100 per cent debt cancellation" deal it is in fact a 10 per cent deal. And these figures only cover low-income countries. There has been no mention at all by policy-makers of the debt distress faced by any middle-income countries. There remains much to be done to ensure campaigners and the broader public are not misled and that the debt campaign goes on.

In this briefing, Eurodad outlines some of the key areas of concern on:

- Country lists;
- Conditionality;
- Extra money to spend;
- Which debts are included;
- 100% debt cancellation rhetoric;
- Inequality in debtor-creditor relations.

We also include some key facts and statistics on the debt deal. The briefing is intended to assist civil society colleagues to better understand the details of the deal, what it will mean for the countries involved (and excluded) and how it will be implemented in practice. This will help us with our continued advocacy on the debt issue in the coming weeks and months. This advocacy will be essential: at this point the deal remains a G7 proposal only. It will have to pass two further stages before it can be implemented.

Firstly, the proposal will need to be presented to the governance structures of the World Bank and IMF before it can become policy. In the communiqué, G7 Finance Ministers propose that the Boards of the IMF and World Bank look at these proposals at the forthcoming Annual Meetings of these two institutions. Secondly, IDA donors beyond the G7 will need to agree to put extra resources into this deal to cover the cost of the cancelled debt to IDA.

There is therefore still time to push for a much better deal – and indeed the deal as proposed by the G7 could change shape over coming months as it passes through these two further phases of negotiation.

NOT 100 per cent debt cancellation: key facts

Issue	Fact
Number of Southern countries covered	Only 18 countries are covered, potentially rising to 27 over the next two years. There are many more low-income and middle-income countries who need partial or 100% debt cancellation.
On average the 18 eligible countries will save US$1 billion each year over the next ten years in debt service	**This deal therefore cancels only 10% of the debts that need to be cancelled.** The 62 countries that need 100% debt cancellation to achieve the MDGs by 2015 pay over US$10 billion in debt service to the multilaterals per year.[1]
Claim of "US$40 billion cancellation" deal	The deal is worth US$40 billion in nominal terms, but will be delivered over a 40 year time-period. The Net Present Value of the deal is US$17 billion.
Net gain for poor countries	Countries will receive a **dollar for dollar reduction in IDA flows equivalent to the amount cancelled.** They will then receive new money on the basis of policy performance. This reinforces harmful WB/IMF conditionality and for poor performers will result in no net gain from this deal.
Rich countries cancelled US$30 billion in debt owed by Iraq in 2004	This was more in one day than has been delivered to the whole of the African Continent over the last 10 years.

Not 100%: many countries excluded

The deal is based on the list of HIPCs as drawn up by creditors in 1996 on a flimsy analytical basis and in a way which deliberately excluded some key countries. This leaves many countries (such as Kenya, Angola, Kyrgyz Republic, Vietnam, Haiti etc) squarely excluded. Some commentators believe therefore that for non-included countries, debt relief remains as elusive as ever before since creditors will point to the extraordinary efforts they have undertaken for the chosen few.

Work is reportedly underway within the World Bank on an expanded country list of HIPCs with Tajikistan, Eritrea and Haiti potential future candidates for HIPC status. Should these countries also become HIPCs, they could also become eligible for this deal after on average six years of implementing Bank and Fund conditions.

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[1] In the Balance, May 2005, A joint briefing paper by Jubilee Debt Campaign, ActionAid and Christian Aid, setting out why debts must be cancelled now to meet the Millennium Development Goals: http://www.jubileedebtcampaign.org.uk/?lid=659

Not 100%: many debts excluded

The deal includes debts to three multilateral institutions only: the IMF, World Bank and AfDB. Ghana for example has debts to 9 multilateral organisations. Five Latin American countries owe the IADB over US$3.3 billion in debt service payments over the next 10 years. Debts to the Caribbean Development Bank are also excluded by this deal. This means that these Latin American countries will continue to accumulate (and service) debt with these two institutions, and in the case of the Caribbean Development Bank, loans are on much less concessional terms.

All in all there are 19 multilateral creditors many of whom have not even cooperated in the HIPC Initiative. There may be even less incentive now to do so given that 18 debtors will have improved solvency positions. Upcoming meetings of the multilateral development banks will provide key advocacy opportunities for campaigners.

Private sector debts are also not considered yet these debts remain a key concern for many middle-income countries, lots of whom are also in debt difficulties. Yet the continued approach of the G7 has been to focus on the limited (and arbitrary) HIPC country list.

Nevertheless, it is significant that IMF debts have been included in the deal. IMF debt is extremely onerous: for HIPCs, debt service to the IMF over the next five years constitute half of all debt service obligations to the main multilateral institutions.

IMF debt cancellation will not however be financed via gold sales, as campaigners had hoped, but via resources generated by the 1999 sale-buyback agreement combined with additional bilateral contributions. This compromise leaves many campaigners disappointed since the IMF's vast undervalued gold resources will remain idle rather than put to productive use (undervalued by approx. US$35 billion). It is also dependent on donors contributing more cash to cover the costs of IMF debt cancellation as well as an expanded country list: will they necessarily want to do that?

Who can expect what? Some country examples (millions US-$)[2]

Country	Debt Service after full HIPC relief in 2006	Debt Service to WB/IMF/ AfDB	Reduced debt service	% Relief	New debt service ratio	Internal debt service (US-$ equivalent)
Niger	30.9	17.4	13.5	56%	1.9%	n.a.
Zambia	86.3	32.4	53.9	38%	3.0%	70
Bolivia	344.6	83.0	261.6	24%	10.5%	515
Ethiopia	54.3	15.9	38.4	29%	8.6%	n.a.

[2] Table from Erlassjahr.de: http://www.erlassjahr.de

Controversial conditions

Because this deal extends to HIPC 'completion point' countries only, controversial World Bank and IMF conditions remain firmly in place. This situation is clearly worse for the countries which have not yet reached 'completion point' and are still struggling to implement the conditions needed to reach this point. The good thing about the deal is that it provides out and out debt stock reduction (rather than rich country governments paying the debt service on behalf of countries every year). Once granted, debt cancellation is irreversible and means that Southern Governments can potentially stop having to implement so much conditionality. However, if they want to get future financing from the World Bank and IMF, these governments will have to again submit themselves to Bank/Fund conditions.

In the communiqué G7 Finance Ministers also place a lot of emphasis on *"good governance, accountability and transparency"* which are portrayed as *"crucial to releasing the benefits of the debt cancellation"*.[3] Again, many campaigners will be seriously concerned at what may be viewed as apparent moves to strengthen conditionality and the controversial CPIA. CSOs need to monitor this actively, including rumoured new World Bank transparency conditions. Many NGOs have pointed out in the past that the boundaries between so-called 'good governance' conditions and 'economic policy conditions' is often quite hard to draw, with policy reforms such as privatisation sometimes being promoted on an anti-corruption basis.

How much will countries benefit?

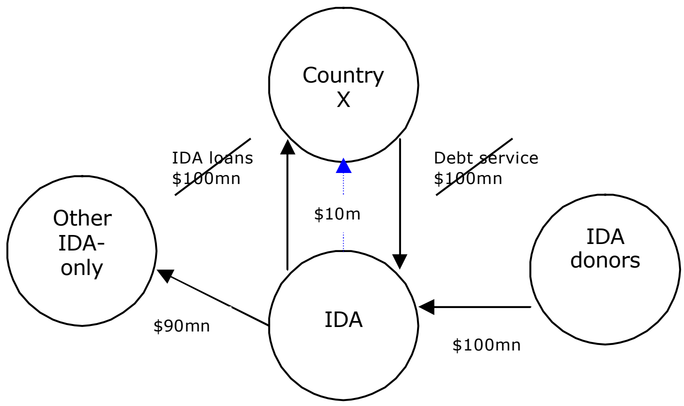
An impression has been given that African Governments will instantly have more money to spend on development. But while the 18 eligible countries will indeed receive 100% debt stock cancellation, this will be accompanied by a corresponding dollar for dollar reduction in gross assistance flows. The G7 communiqué reads: *"For IDA and AfDF debt, 100% debt stock cancellation will be delivered by relieving post-completion point HIPCs that are on-track with their programmes of repayment obligations and* adjusting *their gross assistance flows by the amount forgiven"*.

Donors will then take the amount forgiven and put it into IDA as a whole. This amount will then be redistributed across all IDA-only countries according to the current Performance Based Allocation (PBA) system which in turn is based on the controversial CPIA (Country Policy and Institutional Assessment). Put simply, it reinforces conditionality and the CPIA.

For example if country X currently pays US$100 million per year in debt service to IDA and AfDB, this will stop. But in return, IDA allocations to country X will be slashed by the same amount, i.e. US$100 million. This US$100 million will then be paid into IDA as a whole and redistributed across the 66 IDA-only countries on the basis of supposed "good" policy performance as determined by the CPIA. Country X may still receive new grants but this is extremely unlikely to be as much as the US$100 million it lost out on. And for countries with a very low CPIA score, the net

[3] The full G7 Finance Ministers' communiqué text is available at: http://www.hm-treasury.gov.uk/otherhmtsites/g7/news/conclusions_on_development_110605.cfm

increase in resource flows from this deal will of course be zero. The figure below illustrates how the proposed mechanism will work.



On a positive note, it does mean that non-HIPCs will have access to these new resources but for many HIPCs, there will be very limited increases in their net transfers. And let's not forget that this debt cancellation will be paid for out of aid budgets, rather than over and above aid budgets.

Who's in Charge?

Commentators have been quick to point out that this deal does nothing to address fundamental power imbalances in the international debt architecture. Charles Mutasa of AFRODAD concludes that *"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".* Any agreement must therefore be evaluated in relation to whether steps have been made to place debtors and creditors on an equal footing. Here this deal fails. It makes no mention of the underlying mechanisms which perpetuate the debt-poverty trap and also does not acknowledge any creditor co-responsibility in the accumulation of unsustainable and in may cases odious debts.

The African NGO Statement on Debt stresses that *"creditor nations and the International Financial Institutions (IFIs) need to acknowledge publicly the roles they played in exacerbating indebtedness in poor countries"*. It goes on to say that, *"cancelling Africa's debt should however not be seen in isolation from the broader objective of putting the continent on the path to sustainable growth and development through the creation of a level playing field in the area of global trade. The failure to link Africa's debt crisis to the impact of the predominantly hostile global trading environment under which it has to operate has in most cases resulted in piecemeal measures that end up dealing with the symptoms of the problems and not the causes."* For the full statement, coordinated by AFRODAD, see: http://www.eurodad.org/articles/default.aspx?id=611

Key concerns and next steps

This deal is a step in the right direction but serious concerns clearly remain. Most importantly, this proposal will not solve the debt crisis.

NGOs cannot therefore simply abandon campaigning on the debt issue in the run-up to the G8 Summit. This would be a mistake. It would also send out the wrong message to governments, the media and public alike. There are still major questions unresolved on:

- Country lists;
- Conditionality;
- Extra money to spend;
- Which debts are included;
- 100% debt cancellation rhetoric;
- Inequality in debtor-creditor relations.

This deal does not meet civil society demands as outlined in declarations such as the GCAP Johannesburg Declaration, the African NGO Statement on Debt and the South/North Working Group Statement on Debt.[4] CSOs therefore need to complain very vocally about the misleading sale of this deal and ensure that the media, public and other civil society groups are not taken in. We need to continue to push to broaden this deal much further but also monitor very closely its implementation to see what this deal really will mean for different countries.

For any questions, suggestions or for further clarifications and updates, contact Gail Hurley, ghurley@eurodad.org

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With kind thanks to the following people for their suggestions and comments:

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[4] See: http://www.eurodad.org for these statements

Annex

HIPC countries and status under initiative

The HIPC Initiative currently identifies 38 countries (32 of them in Sub-Saharan Africa) as potentially eligible for HIPC Initiative debt relief)		
Completion Point Countries (18)	**Decision Point Countries (9)**	**Not yet at decision point (11)**
Benin	Cameroon	Burundi
Bolivia	Chad	Central African Republic
Burkina Faso	DRC	Comoros
Ethiopia	Gambia	Republic of Congo
Ghana	Guinea	Côte d'Ivoire
Guyana	Guinea-Bissau	Lao PDR
Honduras	Malawi	Liberia
Madagascar	São Tomé and Principe	Myanmar
Mali	Sierra Leone	Somalia
Mauritania		Sudan
Mozambique		Togo
Nicaragua		
Niger		
Rwanda		
Senegal		
Tanzania		
Uganda		
Zambia		