MEDIA BRIEFING

G7 COUNTRIES' POSITION ON DEBT

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OKINAWA G7 SUMMIT

A DIGEST OF WHERE G7 COUNTRIES ARE ON DEBT

Executive Summary

The Heads of Government meeting in Okinawa marks the last chance for the world's richest creditors to fulfil the *Jubilee 2000* campaign aim[1] – "to cancel the unpayable debts of the world's most impoverished countries by the year 2000".

It also marks a vital opportunity to fulfill the pledges made by the Heads of Government at last year's Summit in Cologne to cancel $100 billion of the debts owed by the world's most Heavily Indebted Poor Countries (HIPCs).

For this promise to become a reality, the final Okinawa Summit communiqué needs to contain at least two announcements. They are:

- An agreement between the G7 creditors on what is meant by 100% write offs.
- A timetable for financing the commitments made at last year's Cologne Summit.

For the *Jubilee 2000* goal to become a reality, the G7 must agree to:

- A 100% cancellation of all the debts of the poorest countries to enable them to graduate out of dependency on donor aid when financing basic human needs expenditures or, if this is not possible, at least to meet the financing requirements necessary to achieve the International Development Targets of halving the proportion of people living in extreme poverty (less than US $1 a day) by the year 2015.

The HIPC Initiative – 100% should mean 100%!

The enhanced HIPC Initiative announced at last year's Summit is in danger of unravelling. One year later, only ten countries have received any debt relief on their scheduled debt servicing payments. Only two of those (Uganda and Bolivia) have achieved any cancellation of their debt stock. Despite talk of 100% write offs, most countries are expected to receive, on average, less than 50% debt relief. Tanzania, for instance, will achieve only a 7% reduction on its actual debt servicing flows.

The Cologne Summit declaration announced up to 90% debt cancellation, but this referred to *eligible* debts[2] only. All the G7 creditors have subsequently agreed to 100% cancellation of bilateral debts, but this refers to a restricted pool of debt only. Some creditors (eg Britain, Canada, Italy and the US) have agreed to waive this qualification and cancel all HIPC countries bilateral debts. Others, (Germany, France and Japan) have diluted the 100% target by promising to cancel only the debts acquired before the date the HIPC countries first approached the Paris Club (of bilateral creditors) for debt relief.

For many heavily indebted poor countries, much of the debt stock accumulated after the cut off date was in the form of new borrowing to service their interest payment obligations on existing debts owed to the World Bank and IMF.

G7 governments need to come to a consensus that 100% write offs mean 100% cancellation of pre and post cut off debts. In short, 100% should mean 100%!

[1] CAFOD is a founding member of the UK *Jubilee 2000* coalition
[2] Eligible debts are those debts incurred before a debtor country first approached the Paris Club of creditor nations for debt rescheduling – a date back in the 1980s for many HIPC countries.

The HIPC Initiative - Drinking in the last chance saloon

The HIPC Initiative is now in danger of unravelling. Last year's Cologne Summit announced up to $50 billion debt relief additional to previous debt relief packages[3]. To launch the package, creditors promised to finance the HIPC Trust Fund to fund the debt relief provided by the multilateral development banks (principally the World Bank, the African Development Bank and the Inter-American Development Bank).

The major creditor nations have pledged some US$ 2.23 billion for the Trust Fund.[4] So far, the actual sums committed to the Trust Fund have fallen far short of this promise. The US is holding up most of the contributions from creditors because other industrialised nations are refusing to honour their pledges in full until they are sure that the US will make its promised contribution. President Clinton has magnanimously led the way in pushing for a total write off of poor country debts and pledged some $600 million[5] to the Trust Fund, but the US itself has yet to contribute a single cent. Congress is in effect sinking the whole enterprise. Members of the Senate have tied funding for the HIPC Initiative to reforms of the IMF. The President has put forward a bill for $435 million for the Trust Fund but members of Congress are looking to contribute up to $225 million for next year. The debate in Congress comes at a time when the US domestic budget surplus is estimated to have risen to a record $115 billion, for the financial year 1999.

With obligations to provide debt relief for up to 20 countries this year, current projections estimate that funds for the Trust Fund will have dried up by mid-2001. Unless the logjam is broken at the Okinawa Summit and on Capitol Hill, the HIPC Initiative will not have the resources needed to provide across the board debt relief from next year.

As a result the more generous creditors are faced with the choice of making up for US unwillingness to play its full part in debt relief by providing Trust Fund financing from other aid sources including the World Bank's own income. As most of the Bank's income comes from repayments on loans made to the poorest countries, the perverse outcome will be that poor and middle income countries will end up subsidising the richest in funding debt relief. On July 11 this year, the EU announced the release of $1 billion from its Development Fund to alleviate the pressure on Trust Fund resulting from the legislative block in Congress - a case of diverting aid money intended for the poor to pay for debt relief supposed to be forthcoming from the world's richest country.

The promises on debt relief made at Cologne last year now look distinctly hollow. The delays and interruptions in the financing of meagre contributions to debt relief and the enhanced HIPC Trust Fund are leading campaigners to view the pledges made at Cologne with scepticism and distrust. Many *Jubilee 2000* groups reject the HIPC Initiative as more concerned with saving creditors money and levering-in trade policies that advantage industrialised countries, rather than providing the "robust exit" from the debt burden.

If the G7 leaders are serious in their intent to implement the original pledges on debt relief made at Cologne last year, then the Okinawa Summit must announce firm and measurable commitments. The G7 should agree target dates for the full financing of the enhanced HIPC Trust Fund.

[3] Previous debt relief packages have amounted to a salami-slicing approach to debt relief (starting in 1988 with 33% debt reduction, in 1991 up to 50%, 1994 67% and 1998 HIPC debt relief up to 80%).

[4] The HIPC Trust Fund is estimated to need some US$ 6 billion to cancel the HIPC debts owed to the multilateral development banks (ie World Bank, Inter-American Development Bank and the African Development Bank)

[5] *World Bank* – Enhanced HIPC framework: Status of Bilateral Donor Pledges 2000

The G7 leaders should reaffirm and finance the Cologne targets to ensure that the majority of indebted countries can pass the HIPC Initiative and achieve substantial debt relief by the end of the year 2000.

<u>Debt Relief – too little to meet the 2015 targets to halve global poverty</u>

G7 creditor countries have collectively endorsed the target to halve world poverty by the year 2015, inserting a new moral and humanitarian language at the centre of international policy-making on debt cancellation.

However, to date all studies on the projections for economic growth, aid and debt relief for the world's HIPCs show that, together, they will still not provide the necessary resources to halve poverty in those countries. Debt relief, which essentially reduces the flow of much-needed hard currency out of indebted countries, is one of the guaranteed and most efficient ways in which rich countries can transfer resources to poor counties.

The G7 should agree to commit future Summits to take stock of the progress made in achieving the targets to halve global poverty and to monitor the implementation of commitments made at Cologne and at the World Bank and IMF.

Real progress in meeting the 2015 targets can only come from increasing resource flows and investments in human and physical capital in low-income countries. One way to increase the flows would be to lift the arbitrary ceiling on debt relief from the World Bank and IMF from 90 to 100% on the debts owed by the poorest and most indebted countries.

There are signs of political willingness in and beyond G7 countries to support the removal of this aribitrary limit on multilateral debt relief. The UK, Italy and Canada have all announced total bilateral debt cancellation. The Italian parliament has gone further and agreed to total write offs of low-income country debts not eligible for cancellation under the HIPC Initiative. In the US, the (all-party) Congressional Meltzer Commission earlier this year recommended total cancellation of debts owed to the World Bank and IMF.

G7 leaders are committed to the attainment of the international development targets. But this is at odds with the HIPC approach to debt sustainability. At present sustainability is calculated on the basis of income earned from exports rather than on a country's levels of poverty. Currently poverty reduction is a factor only in determining how the proceeds from debt relief should be spent. CAFOD believes that poverty levels should determine how much debt relief a country should receive as well as acting as a guide on where the money goes[6].

Using such measures it is clear that for some of the poorest countries (including a group not eligible for debt relief under the HIPC Initiative) a 100% debt cancellation is necessary if the 2015 development targets are to have a realistic chance of being met.

The G7 leaders should agree to a reform of the HIPC Initiative to assess the levels of debt relief required according to the finance necessary for indebted countries to meet the international development targets to halve poverty by the year 2015.

G7 leaders need to agree, where necessary, to the outright cancellation of all the poorest countries' multilateral and biltateral debts on the basis of their human development needs, and should expand the HIPC Initiative to include those countries currently not eligible for debt relief.

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[6] See *A Human Development Approach to Debt Relief for the World's Poor* – by Northover, Joyner and Woodward. CAFOD paper, 1998

Status of G7 creditor countries on debt

United States

President Clinton's announcement in September 1999 that the US would consider 100% bilateral debt cancellation was a huge boost for the *Jubilee 2000* campaign. Most of the major bilateral creditors have since followed suit by increasing their bilateral write-offs from 90 to 100%. Congress, however, has in effect subverted the official US position. While sitting on an unprecedented budget surplus of over US$115 billion, members of Congress have delayed and substantially scaled down the appropriations necessary to fund the US's bilateral write offs or to finance the multilateral HIPC Trust Fund. Senator Phil Gramm has said on debt relief that the choice is between funding for "Ghana or Grandma". Unfortunately the Senator's soundbite policy positions on debt are untroubled by analysis or fact - Ghana is not applying for HIPC debt relief.

Japan

Japan is the biggest bilateral aid donor to Africa. It has the largest to lose in cancelling ODA debts. After some prevarication and qualification, the Japanese government agreed at the beginning of July 2000 to a 100% write off of bilateral debts. However, this write off refers only to pre cut off date debts. Some African debt specialists allege that the Japanese government has said privately that there will be no future development assistance for Ghana and Malawi if they opt for 100% bilateral debt relief from Japan. The Japanese government has denied this.

Germany

The Schröder administration has agreed to 100% debt cancellation, but on pre cut off debts only. Many of the debtors to France and Germany acquired additional debts after they first approached the Paris Club to maintain their debt servicing obligations on debts owed to the world's principal creditors – the World Bank and IMF.

France

France has agreed to 100% write offs for pre cut off debts only. The French government has proposed tying post cut off debt relief to requiring debtor countries to use the released resources to import goods from overseas.

Italy

In June 2000, the Italian Parliament achieved unprecedented cross-party support for a bill that will give 100% cancellation on pre and post cut off debts. The bill is a substantial advance beyond other G7 creditor positions in pushing debt relief to non-HIPC low-income countries.

Canada

Canada was the first creditor to propose immediate write-offs of bilateral debts. In order to compensate for the slow progress in achieving a substantial multilateral debt write-off in the HIPC agreement, Canada has developed its own version of a unilateral debt moratorium which will cancel payments made by debtors as they fall due.

United Kingdom

The UK is one of the largest contributors to the HIPC Trust Fund and has taken a lead in pushing for more generous terms of debt relief through the so-called "enhanced HIPC Initiative". Officials are wary of pushing for further expansion of the Initiative to include 100% multilateral debt write offs. They suggest that there is no appetite amongst other creditors for expanding the HIPC Initiative.

Conclusion

The "enhanced HIPC Initiative" endorsed at last year's Cologne Summit is, at best, going to produce a cancellation of less than half most eligible countries' debt stock. 12 years after the current round of debt relief packages was first launched and 3 years after the HIPC Initiative was announced, only 10% of the headline figure of US$ 100 billion has been written off. The G7 have collectively failed to find the necessary resources to finance a package which will lead to less than 50% write offs. Without determined effort and leadership on the part of the G7, the HIPC Initiative will come nowhere near the *Jubilee* promise of a debt free start to the new Millennium – and the International Development Targets of halving world poverty by 2015 will be seen as empty rhetoric.