

Beyond Cologne, Towards Jubilee

CIDSE-Caritas Internationalis' response to G8 Cologne Initiative

On June 18th 1999 the G8 leaders' Communiqué announced additional debt relief of US \$70 billion (in nominal dollars) spread over a number of years: The G-8 offered US \$50 billion in nominal terms (= US \$27 billion NPV) in additional debt cancellation under a revised HIPC programme. They also announced the cancellation of a further US \$20 billion in aid-related debt (i.e. overseas development assistance which was allocated in loans rather than grants).

The G8 Communiqué further acknowledged the need for a clearer link between debt cancellation and poverty reduction, and affirmed the importance of civil society participation in the design and implementation of poverty reduction plans.

In these respects, the initiative represented an important step forward from the current framework of the Heavily Indebted Poor Country initiative. Nevertheless, it still falls far short of what countries need to escape the debt trap, which is a major obstacle to their long-term development and which CIDSE-Caritas Internationalis (CI) continues to highlight as a major source of injustice in our world.

It is also worth recalling that in many cases debts have already been repaid a number of times over, and are the legacy of irresponsible lending for which creditors as well as debtor governments have a shared responsibility. At a broader level CIDSE-CI is engaged in advocacy work with others aimed at highlighting the structural injustices in global economic relations across a range of issues beyond debt, such as trade relations.

Moreover, while cancelling aid-related debts is a welcome move it is worth reminding G-8 leaders that donor countries had agreed through the United Nations to do this (for LDCs) as far back as 1978. Thus they are at last meeting in many cases unfulfilled promises.

Earlier this year, CIDSE-CI submitted a paper, "Proclaim Jubilee," which offered three broad policy recommendations if debt reduction through the HIPC initiative is to move toward the Jubilee call for Justice namely: integrating poverty reduction with debt relief; increasing openness and participation in decision-making; and committing additional new resources. The following sections provide an evaluation from CIDSE-CI's perspective of the Cologne Communiqué in the light of those recommendations.

Linking debt relief to human development

CIDSE and Caritas Internationalis are networks of Catholic organisations committed to the full human development of each person. The principles of Catholic social teaching compel us to call for debt reduction – not for its own sake, but as a means of reducing poverty in the poorest countries.

This requires attention to at least two issues: a level of relief from debt service payments that is deep enough to free resources for priority human development programmes, and the adoption of mechanisms to ensure that savings are indeed redirected to such programmes

By lowering the so-called "sustainable debt" threshold, the Cologne initiative makes possible the provision of deeper debt relief to a greater number of countries – perhaps as many as 36 countries, according to some estimates. While this is an improvement over the 7 countries that have qualified for HIPC debt relief so far, it still falls short of some 50 or so countries

that, for example, Jubilee 2000 UK identifies as heavily indebted, highly impoverished and urgently in need of debt relief. In addition, some have also suggested that the deeper level of debt relief provided will fail to free up substantial new resources for human development and poverty reduction for some countries as it will merely cancel the debt that countries are currently unable to pay in any case.

Furthermore, CIDSE-CI believes that more fundamental changes are needed to ensure that broader human development objectives are at the centre of debt reduction programmes. We believe that current HIPC framework needs to be replaced with a new framework which entails mechanisms for aligning debt reduction with human development. Measures of debt sustainability should not be based on a country's export earnings, but on the needs of debtor countries and their citizens. One of our members, CAFOD, has put forward a proposal for a human development approach to debt sustainability arguing for new measures which would take account of factors such as human and infrastructural development needs and a government's capacity to raise revenue.

Unless an approach to debt sustainability centred on human development is adopted, the international development targets set at successive UN conferences during the 1990s and adopted by the Development Assistance Committee of the OECD will remain a pipedream. These targets call for halving the number of people living in poverty by the year 2015, and set concrete goals in areas such as people's health and education. These goals are unrealistic if scarce money is still being extracted from poor countries, which do not have enough left over to invest in development.

This approach was highlighted by CIDSE-CI in its meeting with Michel Camdessus last October and merits closer consideration.

CIDSE-CI also welcomes the Finance Minister's recognition that "*it is important that the benefits of debt relief are targeted to assist the most vulnerable segments of population.*" We support the adoption of discrete mechanisms that redirect debt savings toward poverty reduction programmes and which hold governments accountable for the use of financial resources. However, in our view it is essential that such mechanisms be developed, administered and monitored by borrowing governments in conjunction with broad range of groups representing civil society. Indeed, we advocate reform of the entire policy formation process, which would put primary ownership back into the hands of national government working together with their citizens. We address this point below.

CIDSE-CI believe that debt relief should not be unduly delayed when each day of postponement can leave the basic needs of a society's most vulnerable unfulfilled. We therefore regard with mixed feelings the G-8's decision to begin providing multilateral debt relief to countries after three years. Although we are encouraged that the delivery of debt relief is accelerated, we are concerned that such "interim" relief continues to be contingent upon a country's compliance with IMF-imposed structural adjustment reforms, and can be withdrawn in the case of non-compliance. Such an arrangement will maintain creditor control over debtors' for an indefinite period of time.

Increasing Participation and Transparency in Decision-Making

We welcome the call in the G-8 communiqué for consultation with broader segments of civil society during the design and implementation of adjustment programmes in order to promote greater ownership. We believe the G8 leaders need to listen harder. The voices of civil society are calling on leaders to delink debt relief from failed adjustment programmes, to cancel unpayable debts and to support national efforts for development.

Of concern to CIDSE-CI members is that the communiqué appears to increase the power of the International Monetary Fund in these countries. The G-7 Finance Ministers state that “*the new HIPC (Heavily Indebted Poor Country) initiative should be built on an enhanced framework for poverty reduction, developed by the International Financial Institutions.*” Later on it urges these institutions to “*help qualifying countries with the drafting and implementation of poverty reduction plans for the effective targeting of savings derived from debt relief.*”

Such directives unfortunately leave the primary power to develop national development and poverty reduction programmes in the hands of the international financial institutions. Yet the IMF’s programmes and mode of operation have been part of the problem in these countries. Three-quarters of its ESAF programmes have broken down at some stage during their implementation and a recent external review severely criticised these programmes for both their lack of local ownership and lack of attention to negative social impacts.

Adjustment programmes, as they are currently implemented, are actually undermining democracy and sovereignty in these countries. Instead, we urge that national development and poverty reduction plans be developed by the people of the countries themselves – involving all relevant government ministries and elected parliamentary bodies in conjunction with churches, trade unions, business groups, women’s and farmers’ organisations and other groups representing civil society. Donor governments and institutions should respond to these plans, not direct them, if they want to encourage countries to take full responsibility for their own development. Unless such an approach is taken, running an economy takes precedence over building a cohesive society – a key challenge particularly in those countries emerging from years of conflict.

Take Tanzania, where 40% of people do not reach the age of 35, where debt relief has been delayed as a result of a breakdown in their ESAF. Yet Tanzania has prioritised social spending on health and education. Hence we believe that subsuming poverty within the mantle of traditional structural adjustment programmes rather than revising the framework for debt relief to put poverty at the centre is a mistake.

Furthermore, one of the disappointing omissions from the G-8 communiqué was the lack of reference to the proposal for establishing an independent arbitration system or insolvency procedure to deal with debts. In the current system creditors are judge, jury and plaintiff. We believe that it is unjust that decision-making power is totally in the hands of creditors, even though unpayable debts arose in the first place due to creditor and debtor actions. An independent procedure of arbitration would regulate creditor-debtor relations so as to ensure that debt repayments are not made at the expense of vital services in debtor countries. Under such an arbitration procedure odious debts incurred by former dictators, irresponsible loans and loans which have already been repaid might be addressed. And devising such a procedure would be a disincentive to economically unsound lending and contrast with the bail-outs of the past.

Adequate Resources

We reiterate our call upon G-8 leaders to at least follow through with the commitments in Cologne by allocating adequate financial resources to achieve these goals. Resources for debt reduction should be additional to development aid. Unless new resources exist, the increase in the number of eligible countries will mean more countries competing for the same amount of money.

We recognise that according to the G-8 agreement the IMF should be allowed to sell up to 10 million ounces of gold for purposes of financing debt relief. We further encourage G-8

leaders to identify other sources of funding within IMF reserve accounts that could help finance debt relief. Yet we strenuously oppose the proposal that proceeds for gold or other IMF reserves would also be used to fund the ESAF programme, given the adverse effects of ESAF conditions on the majority of the population.

Over fifty years ago at the end of World War II the World saw the need for a new financial architecture in order to promote peace and prosperity. In 1953, Germany's creditors, some of whom had been invaded by Germany, cancelled a large portion of that country's debts. That action is testimony to the power of political will. As we celebrate the millennium, the Biblical concept of Jubilee (Leviticus 25, Luke 4) calls the world to a new beginning. Therefore we need to harness political will once more. Jubilee 2000 has mobilised the public's will and will continue. As CIDSE-CI our advocacy on this vital issue will continue to be inspired by Pope John Paul II's call for debt cancellation in the papal encyclical "Tertio Millennio Adveniente" (Paragraph 51).

No doubt implementing debt cancellation will not be an easy task but its benefits are still simple to understand - a better quality of life, and indeed life itself, for some of the poorest communities in the developing world and a more stable global economy as we enter the 21st century.

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