

Unfinished business

Ten years of dropping the debt



On 16 May 1998, 70,000 people from across Britain and the world took part in one of the biggest demonstrations the UK had ever seen: a human chain around the G8 summit in Birmingham, demanding an end to poor country debt. It was a day that changed the world for millions of people. Ten years later, as we look back at the seminal events of May 1998, just how far have we come?

The scorecard

Significant amounts of debt cancellation have been secured for the world's poorest countries, over \$88 billion, making a real difference to the lives of millions of people in poor countries. But not all of what has been promised has actually been delivered – and further, what was promised was far from enough. Far too little debt has been cancelled for far too few countries so far: for every \$1 that poor countries receive in aid, they still return \$5 in debt service payments. Put in simple and very approximate terms, around a fifth of the debt cancellation that is required, simply to meet the basic needs and rights of citizens in poor countries, has so far been delivered.

On top of this, much of the debt is unjust, originating in irresponsible lending decisions. This debt should be cancelled outright. Moreover there are fundamental problems with the debt relief process: the conditions that have been attached as well as the delays, stigma and loss of control faced by countries receiving debt cancellation.

A brief history of the crisis

After independence in the 1940s, 50s and 60s, many countries in Africa, Asia and Latin America sought their own paths to economic development. Banks sought to lend money to these governments, seeing them as a safe investment.

As the Cold War deepened, governments from both East and West blocs lent increasingly recklessly as they sought to gain political influence. The situation was dramatically intensified by the oil price hikes and currency changes in the 1970s, when cheap money flooded the financial markets and was lent on to poor countries without regard for what it was being spent on and whether it could be repaid. The change in economic situation from the late 1970s, with rising interest rates, deflation and falling commodity prices, caught poor countries in a spiralling debt trap.

Since this time, despite many plans to reduce the debt burden, the crisis has continued to engulf poor countries. Today developing countries' debt

stocks stand at a staggering \$2.7 trillion and every day the very poorest countries pay the rich world \$100 million in debt repayments.

The debt problem unpacked

Behind the headlines of ‘100% debt dropped’ has often been a different story of limited relief, for a few countries, which has taken far too long. Jubilee Debt Campaign estimates that \$400 billion of poor country debt is ‘unpayable’ – that is to say it is not possible for countries to pay that debt whilst also providing health and education to their people and upholding their human rights obligations. One reason for this is that current debt reduction schemes are not based on the need to combat poverty, but on how much a country can afford to repay through, most importantly, export earnings.

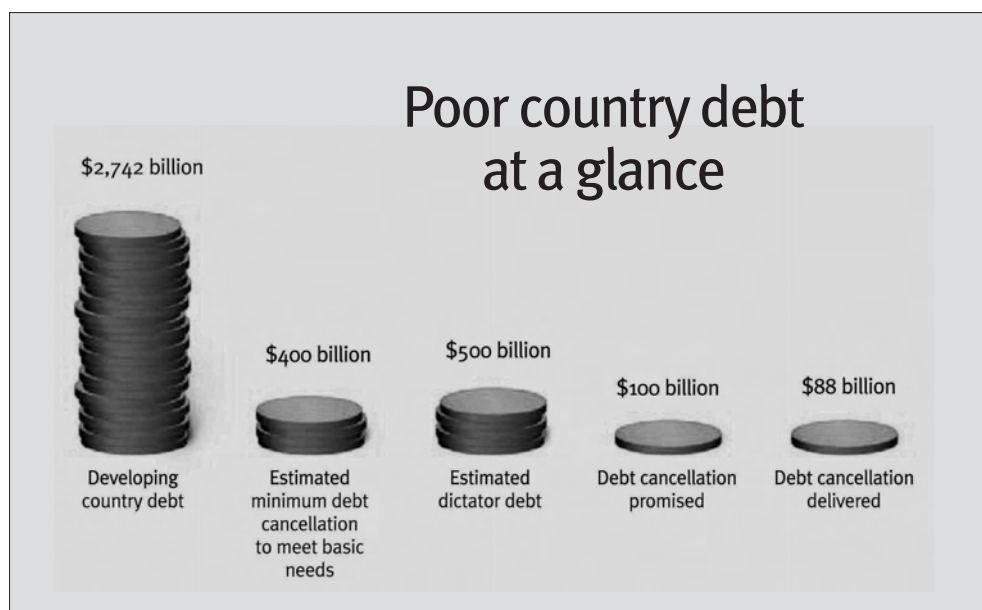
It has been estimated that a further \$500 billion is ‘illegitimate’ debt, lent to dictatorial regimes like Mobutu in Zaire, Marcos in the Philippines and the apartheid government in South Africa. In other words, the regimes’ victims and their children are still paying for the West’s role in supporting their oppressors. Much of this debt was run up through Export Credit Agencies which allow governments to insure business projects in foreign countries. One example is £525 million of Indonesian debts to the UK that arose from arms deals with the Suharto regime, insured by the British government, at a time when Indonesia was using arms to suppress people in East Timor.

Moreover, the process of debt cancellation is unfair. Creditors call the shots, attaching harsh and undemocratic conditions to debt relief. Many creditors – especially private banks – fail to participate in the debt reduction schemes. The most extreme of these are ‘vulture funds’ who buy up old debts cheaply and then sue poor countries for huge amounts of repayments.

While it is crucial to cancel current debts, it is equally important to make sure that a similar debt crisis will not occur in the future. Even some of those countries that have had some debt cancellation through the international Heavily Indebted Poor Country (HIPC) process are now once again facing unpayable debt burdens. New borrowing, often to cover debt payments, and unfavourable exchange rates have combined against these debtor countries, many of whom now have levels of debt that are unsustainable. We believe a radically different approach is urgently needed, with binding standards for responsible lending.

Flawed processes

Debt reduction is decided by an unfair process in which all of the power is held by the creditors. The process is secretive, creditor countries share no responsibility for bad lending decisions (unlike many domestic provisions) and creditors are not compelled to take part. An independent, impartial and transparent process would give equal treatment to creditors and debtors, acknowledge their co-responsibility for running up debts and prevent a debt crisis reoccurring in the future.



As a result of this unfair process, debt cancellation itself has become a means of domination. The International Monetary Fund, World Bank, other multilateral banks, and rich countries have all used the promise of debt cancellation as a means of forcing economic policies on

developing countries, such as drastic reductions in social spending and the privatisation of public services. It should be no surprise that, as well as taking away the ability of countries to determine their own policy choices, these conditions have done little to alleviate poverty.

Currently Burundi is being held up from receiving debt cancellation because it refuses to privatise its coffee industry. Burundi is seeking to recover from years of war and depends on coffee for its export earnings. As a result of its refusal, Burundi now has to continue paying around \$3 million per year to the World Bank, instead of using that money to fund essential social services and infrastructure development in the country.

The conditions attached to debt cancellation lead to lengthy delays in receiving urgently needed funds for poverty reduction. Haiti, for example, despite being the poorest country in the Western hemisphere, only qualified for debt relief in 2006 and won't complete the process until the end of this year at the earliest. Meanwhile 80% of the population live in poverty and recent food price hikes have led to riots on the streets because people simply cannot afford to feed themselves.

Debt relief is working

Despite the problems and limitations of the debt cancellation process, debt relief has had a hugely positive impact. There is clear and mounting evidence that debt cancellation is among the most effective forms of financing poverty reduction for the developing world. Here are a few examples:

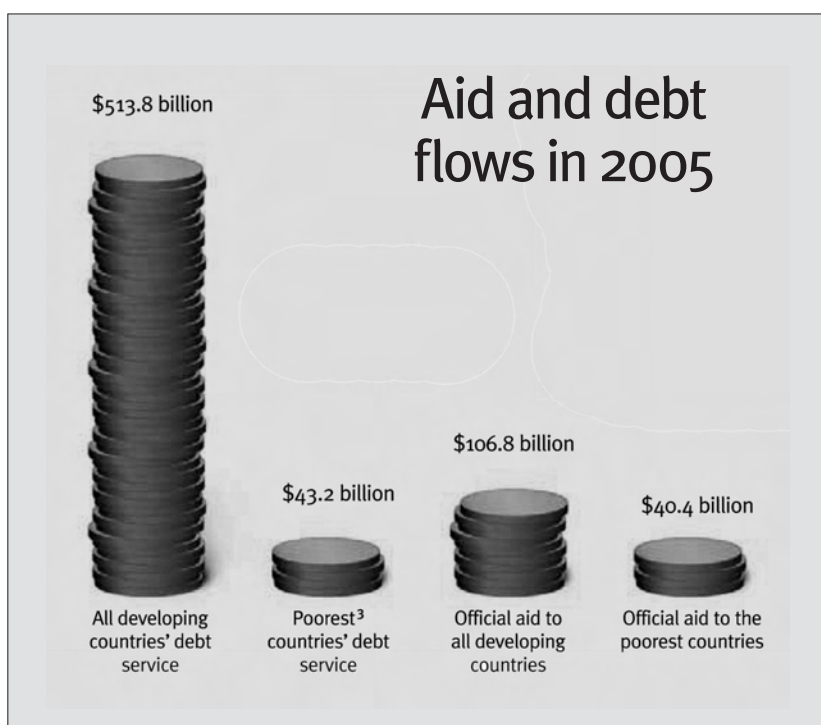
In Uganda, debt cancellation enabled the government to abolish fees for primary schools. Not only did this cause a doubling of school enrolments, it also drastically decreased inequality between girls and boys. Before



debt relief, there were 20% fewer girls than boys in school, now numbers are almost even.

Malawi has used funds from debt cancellation to train nearly 4,000 new teachers each year. Benin has used it to recruit teachers for vacant posts in rural areas, and Mali to pay 5,000 community teachers.

Bolivia and Mauritania both directed funds from debt cancellation towards improving healthcare. Before debt relief, only around 40% of births in each country were attended by a health professional. Now it is nearly 60% in Mauritania and 70% in Bolivia, thus greatly reducing infant and maternal mortality rates.



Next stages on the journey

A huge amount has been achieved in the past ten years. The \$88 billion of debt cancellation has made a real difference to the lives of millions of people in poor countries. But we still need much wider and deeper debt cancellation, and for those debts that are illegitimate to be cancelled outright. We also need a radical overhaul of the process by which debts are cancelled, and measures to prevent a future debt crisis.

Our demands remain those that united 70,000 people in Birmingham in 1998 - an end to unpayable and unjust debt. Specifically we call for:

1. The cancellation of the remaining unpayable debts – estimated at over \$400 billion for around 100 countries
2. A new definition of ‘sustainable’ debts, in terms of human need, to be used as the basis for cancelling unpayable debts.
3. The auditing of poor country debts and the cancellation of those to have resulted from irresponsible lending.
4. The establishment of a fair and transparent process for working out debt disputes.
5. The participation in debt cancellation processes of those creditors who have been least engaged in the process so far, especially commercial creditors; this would prevent ‘vulture fund’ activity.
6. An end to the imposition of economic policy conditions attached to debt relief.
7. The creation and implementation of enforceable criteria for responsible lending.

The UK has taken the lead in the past, but further and faster debt cancellation is urgently needed. As well as using its influence to bring about the above, the British Government must:

- Extend the UK multilateral debt relief scheme, at least to all the poorest 65 countries.
- Cancel all developing countries’ unpayable debt, including export credit debts, owed to the UK.
- Carry out an audit of all developing country debt, including debts owed to the Export Credit Guarantee Department, and cancel those found to have resulted from irresponsible lending.
- Use its influence to persuade other rich countries, companies and institutions to cancel all unpayable and unjust poor country debts.
- Stop counting debt cancellation towards its 0.7% commitment on aid.

Pick Up the Pace – our 2008 campaign

Jubilee Debt Campaign is calling for the UK Government to pick up the pace and drop all unpayable and unjust debt. Ten years on from the Birmingham human chain, much has been achieved but further and faster debt cancellation is urgently needed. Please sign the postcard in your pack, or pass it on to a friend. You can download petition sheets and order more cards from the website: www.jubileedebtcampaign.org.uk/pace



Drop ALL the debt!

 JUBILEE DEBT CAMPAIGN



Unfinished business – full report

This briefing is based on Jubilee Debt Campaign’s tenth anniversary report, *Unfinished Business: ten years of dropping the debt*. Copies of the full report are available from the Jubilee Debt Campaign stall at the ICC. Alternatively, copies can be ordered from the office, or from 19 May, it will be available to download from our website at www.jubileedebtcampaign.org.uk/unfinished