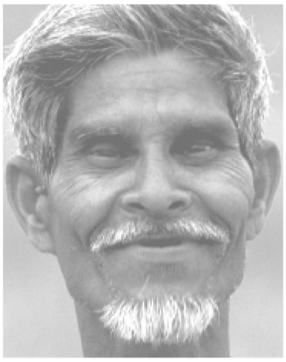
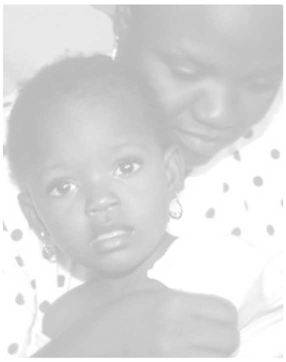
What about us?
Debt and the countries the G8 left behind





A Christian Aid report

September 2005

Christian Aid
We believe in life before death

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Executive summary

Half the world's population, around 3 billion people, live on less than £1.40 a day. Every year more than 10 million children die of hunger and preventable diseases – that's one child every three seconds. The bold targets set by world leaders aimed at halving poverty by 2015 – the millennium development goals, or MDGs – still appear out of reach.

The grim statistics on poverty have become increasingly well known throughout 2005. Thanks in part to the worldwide Make Poverty History campaign, the cancellation of developing world debt is now recognised as a pivotal way to reduce global poverty.

In the largest demonstration that Scotland has ever seen, more than 225,000 people marched through Edinburgh last July to demand debt cancellation, as well as trade justice and more and better aid – a call that echoed around the world, not least when 3 billion people watched the Live8 concerts.

Campaigners have long realised that debt is one of the key obstacles preventing low- and middle-income countries from developing and achieving their full potential. The world's poorest countries continue to pay more every year in debt payments than they receive in grants and loans, forking out an enormous £100 million every day to the rich North.[1] Cameroon, Gambia, Guinea, Mauritania, Senegal and Zambia are among the countries still having to pay back more in debt service than they spend on healthcare for their people.[2]

The effect on poor people of this massive haemorrhaging of money has been substantial and devastating. The UN has estimated that 19,000 children die each day as a result of the social impact of debt.[3]

If the money spent repaying debt were instead invested in poverty reduction and economic growth, millions of deaths would be prevented and lives improved. There is abundant evidence to back this up. Tanzania has abolished primary school fees since receiving debt relief, meaning 1.6 million more children now go to school.[4] Mozambique was able to offer all children free immunisation against common diseases, while in Uganda, 2.2 million people gained access to clean water.[5]

As the facts about debt's stranglehold reached an ever-growing audience, and a flicker of intent was detected among some of the world's most influential decision-makers, hopes were high that July's G8 summit at Gleneagles would see a significant push forward on cancellation.

Unfortunately, despite the hype and the hope, the world's richest nations again failed to deliver. Only 18 out of 153 developing countries will receive anything from the G8 deal on debt, with, at best, a further ten joining them by the end of 2007.

As we discuss in annex three, the deal leaves at least 40 countries still needing immediate and total cancellation of external debts.[6] Many more require massive reductions in debt repayments if they are to eliminate extreme poverty.

The stark truth is that nine out of ten people in developing countries will remain unaffected by the G8 debt deal.[7]

The countries left out in the cold include Bangladesh, Brazil, Eritrea, Kenya, the Philippines, Sri Lanka, Ecuador, Peru, Haiti, Guatemala and Indonesia. All are home to vast numbers of poor people and are forced by an iniquitous system to divert large amounts of money away from critical social expenditure to debt repayments which end up in the bank accounts and government exchequers of the rich North.

Christian Aid believes that this situation is unsustainable. The G8's achievements at Gleneagles, however limited, are welcome – but they will also force campaigners around the world to ask whether it is time for a fundamental reappraisal of the tactics required to end the injustice of debt once and for all. This report argues that it is.

In **chapter 1** we make the case for broadening debt relief to a much wider group of countries, because it is not only the poorest countries that are paying billions of dollars a year in debt servicing. Arbitrary criteria have been used to exclude most countries from debt relief. While it may be politically expedient for powerful countries to pretend that only a small set of countries need debt cancellation, it is time to explode this myth.

In **chapter 2** we look at why countries are in debt. Contrary to the way western politicians often portray the situation, poor governance and corruption are by no means the only reasons. We argue that the governments and institutions that lend money have to take a large part of the responsibility. By lending to oppressive and corrupt regimes that used the money unproductively or unscrupulously, creditors are complicit in today's debt crisis and must share the blame. Christian Aid says that these 'odious debts', which comprise about 20 per cent of total developing-world debt, should be cancelled immediately.

We also examine unfair trade conditions imposed by creditors, which, along with falling commodity prices, have meant countries have not only been prevented from making the money to pay back the debt, but have actually got more into debt.

The report lays bare other unfair factors that increase debt. For example, huge penalties for late payment and high interest rates have meant that countries have paid back far more than they ever borrowed. Between 1970 and 2002 Africa received US$540 billion in loans, and paid back US$550 billion. But it still owed US$295 billion because of penalties, interest and arrears.

In **chapter 3** we show how creditors have made decisions on debt relief in their own interests and not in the interests of poor people in developing countries. We conclude that there is an urgent need for this unjust system to be changed, and call for a new fair and transparent process to ascertain what debts should be paid, taking into account lender liability for odious and unfair debt.

Chapter 4 argues that, given the apparent reticence of creditor nations to deal with the crushing debt burden, developing-country governments should consider what actions they need to take unilaterally to protect the interests of their citizens.

The stark truth is that nine out of ten people in developing countries will remain unaffected by the G8 debt deal.

We make three recommendations for debtor countries. Firstly, we urge them to **emphasise the injustice of debt** when dealing with creditors by underlining the real reasons so much debt was accrued, and how they were denied the means to repay it. We call on debtors to **be more assertive** in negotiations with creditors, and review arguments for and against debt repudiation as a strategy, contending that creditor nations and organisations should act now to cancel debt before countries become so desperate that they default – to everybody's detriment. And finally we encourage poor countries to **reduce their reliance on loans** by maximising domestic income sources, minimising the illegal outflow of money and bringing government decisions under greater scrutiny.

We also examine in detail two of the many countries the G8 left behind, Haiti and the Philippines. Both have a history of debt and poverty, for which the countries' dictators and western creditors share the blame. Both await a just resolution to their plight.

Overall, we aim to show why the idea that debt cancellation is an optional act of generosity on the part of the rich world is a myth. Rather, we argue that it is a necessary response to injustices that we have had a part in perpetrating.

Campaigners should take heart. In April 2004 senior UK Treasury officials told non-governmental organisations that there would be 'no further movement' on debt cancellation in the foreseeable future. Just over a year later, in response to the Make Poverty History campaign, the UK government had reversed its position and worked towards achieving the important, though very limited, progress at Gleneagles.

And this wasn't the first time creditor governments had responded to pressure on debt. In 1999, after years of campaigning, world leaders announced substantial debt cancellation – to date US$50 billion has been cancelled for some of the world's poorest countries as a result of this commitment.

The debt campaign is working and poor people are benefiting. Now is the time to redouble our efforts.

Recommendations to creditors

- Immediately write off odious and unfair debt
- Establish a fair and independent process to solve debt crises, to replace the present biased and arbitrary system
- Immediately cancel the debts of those countries that need it to achieve the millennium development goals

Recommendations to debtors

- Emphasise the injustice of the debt
- Be more assertive in negotiations with creditors
- Reduce reliance on loans

Chapter 1

Debt cancellation – not just for the few

In 1999 the global demand for debt cancellation took a step forward when, in response to huge pressure from the Jubilee 2000 campaign, the World Bank announced the enhanced heavily indebted poor countries (HIPC) initiative. This was intended to give selected countries a 'sustainable exit' from debt crisis and was partially in recognition that the piecemeal responses to a global debt crisis that had begun more than two decades earlier had been totally inadequate.

There is already an exhaustive literature on the merits and limitations of the HIPC initiative.[8] While it has freed up much-needed resources for some countries, it has not led to the sustainable exit from debt crisis that its sponsors had promised. By the end of 2004 only a fifth of the debts of the few countries selected had been cancelled. Ten of the 18 countries selected for debt cancellation still have unsustainable debts according to the World Bank's own criteria.[9]

At the same time, the conditions attached to debt relief have been heinous and undemocratic. For example, Senegal was forced to liberalise its groundnut sector in 2001 as a condition of debt relief. As a result of the reform, which saw the industry's subsidies cut, groundnut farming communities were thrown into chaos and less than 30 per cent of the crop was collected. There was a state of near-famine in rural areas.[10]

The relief the HIPC initiative offers has only ever been available to a minority. The initial figure of 42 eligible countries has since been reduced to 38, but only 28 have any realistic prospect of actually having any debt cancelled.[11]

Qualifying as a 'heavily indebted poor country' can mean significant extra resources to fight poverty and disease – it's a matter of life and death. But with countries rendered ineligible for not being 'poor enough' or because their debts have been defined away, as we will see on page 6, actually making the list is a struggle in itself.

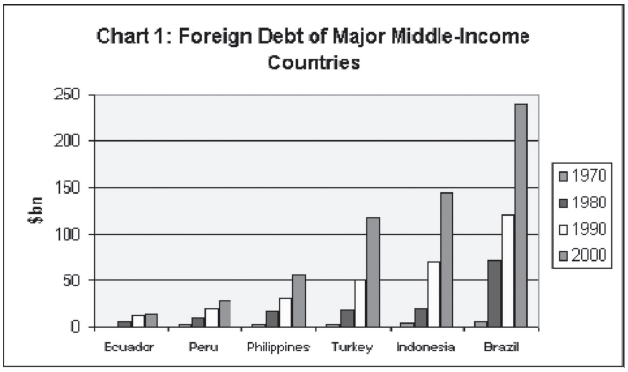
Excluded for not being 'poor enough'

The HIPC initiative excludes all countries with an average per capita income greater than US$865 per year. Only 59 developing countries – so-called low-income countries (LICs) – meet this arbitrary criterion, leaving 94 middle-income countries (or MICs).

But to exclude MICs from the debt discussion is a grave mistake. It ignores the needs of millions of extremely poor people.

Well over a billion people in MICs live on less than US$2 per day, with nearly a third surviving on less than US$1 per day.[12] Moreover, according to the UK's Department for International Development, 38 countries have fallen back from MIC to LIC status in the last 20 years, with only ten managing to regain their MIC status.[13]

Since the latest debt crisis began in the 1970s, the external debt of MICs has risen to unprecedented levels.[14]



Source: Mitchell, Susanna, Debtor-creditor relations in good times and bad, New Economics Foundation, 2005.

The chronic economic problems experienced by many of these countries is often triggered or worsened by excessive levels of debt. Some, such as Peru, Ecuador, Indonesia, Argentina and Brazil, are classified as 'severely indebted' by the World Bank itself.

High levels of debt keep poor people poor and in the worst cases push millions more into poverty. Debt inhibits growth and wealth redistribution by reducing the amount of money available to governments to invest in social services and welfare. For example, Brazil, where 40 million people live on less than US$2 per day, spends three times as much servicing its debts as it does on public healthcare.[15]

At the height of the 1980s debt crisis, the poor suffered no matter how their country's economy was classified. The mortality rate among new-born babies in north-eastern Brazil, which was falling as the decade began, turned upward again as the crisis kicked in. Having dropped from 16 per cent in 1977 to nine per cent in 1982, the rate of infant deaths rose to 12 per cent in 1984. Thousands of Brazilian babies also died of measles in 1984 after cutbacks in immunisation spending.

Other countries suffered during the same period as debt levels shot through the roof, forcing governments to reduce vital social and economic spending in order to increase debt repayments. Food prices in Jamaica tripled as subsidies were cut to help pay back debt. Similar price rises in Turkey between 1979 and 1985 effectively halved the wages of the poor. According to the World Bank's chief economist at the time, Stanley Fischer: 'Most of the burden [of cutbacks to pay for debt service] has been borne by wage earners in the debtor countries.'[16]

Some claim that the debt crises of MICs are over. But they tend to be creditors who measure 'crises' in payments that are not flowing into their bank accounts, rather than in the human cost of money being sent overseas rather than spent on poverty reduction.

Ecuador, described by the World Bank as 'severely indebted', owes almost US$17 billion. It is paying twice as much on servicing its debt (nine per cent of its gross domestic product) as it is on health and education combined.[17] More than half of its citizens live on less than US$2 a day.[18] Yet because its average per capita income is more than US$865, it will receive nothing from the Gleneagles deal.

The focus on the very poorest countries, especially in Africa, must not lead us to forget the millions in poverty in other poor countries where vast debt repayments are stifling growth and social expenditure. Most MICs are not on track to meet the MDGs. The case for cancelling substantial amounts of their debt could not be clearer.[19]

Defining away the debt

The HIPC initiative introduced the concept of 'debt sustainability', stating its intention to 'help poor countries reduce their external debt to sustainable levels so they can focus on long-term poverty reduction and economic growth.'[20] But the World Bank's definition of sustainable debt is based on arbitrary economic criteria and has little to do with how much a country can really afford if it wants to put its citizens first.

The criteria, which compare total debt with annual export earnings and government revenue, have been the subject of heavy criticism from economists around the world. Debt campaigners have long argued that the ability (or otherwise) of a country to pay its debts should be analysed on the basis of how much money it needs to meet the human rights of its people.

Jeffrey Sachs, a prominent economist and author of the UN's Millennium Project report, believes that the debt-sustainability analysis of the enhanced HIPC initiative is built on the flimsiest of foundations. He writes that: 'A ratio of debt to exports of 150 per cent, or a ratio of debt to government revenue of 250 per cent cannot truly be judged to be sustainable or unsustainable except in the context of each country's needs.

'It is perfectly possible, and indeed is currently the case, for a country or region to have a "sustainable" debt (and significant debt servicing) under these formal definitions while millions of its people are dying of hunger or disease.'[21]

Kenya, with average life expectancy down from 57 years in 1986 to 48 today, and with 40 per cent of its annual budget spent servicing its US$7 billion debts,[22] is, like Jamaica, Cambodia and Paraguay, only 'moderately indebted' according to the World Bank. It will receive nothing as part of the Gleneagles deal.

Bangladesh is home to the third highest absolute number of poor people in the world, after China and India. It has the highest incidence of malnutrition in the world – every day 700 children die of malnutrition-related causes.[23] It spends the same amount repaying its debt every year – about US$700 million – as it spends on public health.[24] And its total debt in 2003 stood at US$18.8 billion, five times what it was in 1980.[25]

Yet the World Bank describes Bangladesh not as 'severely' nor even 'moderately' indebted. It is, apparently, 'less indebted', like Nepal, Mali, Haiti and many others, so it too will receive nothing as part of the Gleneagles deal.

While creditors produce economic indicators to support their decisions to exclude countries such as Kenya and Bangladesh from debt cancellation, the real reason is much more simple: meanness.

Nigeria was discreetly dropped from the original list of HIPC countries. Its debt is not sustainable – in 2004 Nigeria's debt service was estimated at US$1.4 billion, more than its spending on healthcare and education combined. Nor is it too rich – it is one of the world's poorest countries with a per capita income of just US$290.

The real reason for its exclusion from the HIPC initiative was that because Nigeria owed so much (US$34 billion) it would have cost rich countries too much to include it.

Chapter 2

Unfair debt

When politicians talk about debt relief they like to make a show of how generous they are being with our money. It is, they imply, the debtor countries that are to blame.

In reality poor governance in developing countries is just one of the causes of the debt crisis. Lenders are guilty. In this chapter we detail three important reasons why rich countries must shoulder much of the blame for the indebtedness of poor countries: odious debts, unfair trade rules and falling commodity prices, and penalties and high interest rates.

Rather than an act of charity on the part of the rich world, debt cancellation should be seen as a belated act of justice in recognition of the role the North has played in the accumulation of debts that so cripple poor countries.

Odious debts

Often the debts democratic countries owe today were accumulated by the dictators and tyrants of yesterday. Estimates suggest that at least 20 per cent of developing-country debts can be described as ‘odious’, meaning that the original loans were made to corrupt or despotic regimes where they were likely to go missing. These debts should not have to be repaid under any circumstances.

The doctrine of odious debt dates from the end of the 19th century, when the US government repudiated Cuba’s external debt after seizing the island in the Spanish-American war. US authorities argued that Cuba’s debt had been incurred without the consent of the Cuban people, and that foreign loans had helped to finance not development but oppression.

The notion that lenders should always be repaid, regardless of how and to whom they lend, is morally indefensible and economically unsustainable. Creditors need to take responsibility for their lending decisions. If they lend to oppressive dictators, they should not expect repayment.

It is immoral that the taxes of poor people are being spent not on social and infrastructural investments, but on paying back loans made to the despots that tyrannised them.

From Indonesia to Argentina, the Philippines to Haiti, examples of odious debt abound.

South Africa

The story of how the new South Africa was forced to pay back the banks that financed apartheid is one of the most shocking examples of an upside-down world, where justice takes a back seat to financial muscle and political expediency.

In 1994 Nelson Mandela was elected South Africa’s president, but one shackle remained ominously around the country’s neck: the debt burden. When Mandela took over, the external debts racked up by the apartheid government stood at US$18.7 billion. Domestic debts were even higher.

Banks based in Germany, Switzerland, the UK and US were the main financiers of the apartheid regime as it struggled through its final years. The International Monetary Fund (IMF) itself lent South Africa money – US$464 million in 1976 (the same year as the Soweto Uprising) and US$1.1 billion in 1982.

Mandela's political party, the African National Congress (ANC), was appalled at foreign banks profiting from apartheid and released a statement which read: 'When the time comes, the South African people will not be unmindful of the role of banks in making profit out of the misery of our people.'

Despite the fact that the money lent to the apartheid regime was clearly linked to the oppression of the people of South Africa, creditors insisted that the ANC government should repay every penny of it. If it refused, it was threatened with a freeze on loans and investment.

While South Africa is not as poor as many African countries, 53 per cent of its population lives in extreme poverty. Without doubt, the money it spent repaying the apartheid debt could have been much better employed; 20 per cent of adults are infected with HIV, while unemployment stands at 30 per cent.

Speaking in Southwark Cathedral in April 1997, the Archbishop of Cape Town, Njongonkulu Ndungane, said: 'As we approach the new millennium, the time has come to invoke the doctrine of odious debt. In the case of South Africa, its foreign and domestic debt was incurred, by and large, under the apartheid regime, and should... be declared odious and written off.'[26]

South Africa has paid roughly US$4 billion a year in debt service since the end of apartheid.

Zaire/Democratic Republic of Congo

Following almost a century of Belgian subjugation, during which millions of dollars worth of goods (especially rubber) were stolen under brutal conditions, Congo won its independence in 1960 and immediately descended into violence. After five years, the CIA helped Mobutu Sésé Seko seize power.

The Bataan nuclear power plant

The Baatan nuclear power plant provides a classic example of odious debt. It is still costing the Philippines' cash-strapped government around US$200,000 every day in debt repayments, despite never having produced a single watt of energy. Initiated by ruthless dictator Ferdinand Marcos in 1975 at an eventual cost to the country of US$2.3 billion, and beset by scandal – Marcos is thought to have received upwards of US$100 million in kickbacks – payments are scheduled to continue until 2018.[27] It was hugely overpriced, costing three times the total bill of a similar South Korean plant.

As early as 1976 both the International Atomic Energy Agency and the Philippine Atomic Energy Commission discouraged the government from going ahead with the plant as the site chosen was prone to earthquakes and surrounded by volcanoes.[28] Despite this, private companies, guaranteed by the US export credit agency Eximbank, funded the project. According to the Philippine Freedom from Debt Coalition (FDC), a Christian Aid partner, these companies knew that the deal would be profitable even if the loans were found to be fraudulent and overpriced.[29]

The Bataan fiasco is a striking example of loans that have not helped a country's people at all, yet have saddled them with the debts of an incompetent and greedy dictator. But there are many other such loans – 150 in the Philippines alone according to an FDC estimate.[30]
In 1990, FDC studied six fraudulent loans and estimated their combined value to be US$4-6 billion.[31]

Mobutu received vast loans in return for political allegiance during the Cold War and throwing open the doors of Zaire's copper and cobalt wealth to foreign companies (an estimated 25 per cent and 50 per cent of world supplies respectively). In the 1970s at least half of all US aid to sub-Saharan Africa went to Zaire.

In 1980 Erwin Blumenthal, the IMF's representative in Zaire, told his employers: 'There is no chance – I repeat, no chance – that Zaire's numerous creditors will ever recover their loans.'

Shortly afterwards two things happened: Blumenthal resigned and the IMF gave Zaire the biggest loan it had ever given to an African country.

When Blumenthal filed his report, Zaire's debt was US$5 billion; in the decade that followed the IMF and the World Bank, together with the British and American governments, lent Mobutu's regime a further US$8.5 billion.[32] Commercial banks, it should be noted, refused to lend more to Mobutu during this period.

Mobutu was one of Africa's great kleptocrats. By stealing from his country he became one of the world's richest men, with a personal fortune estimated at more than US$10 billion.

Today, the Democratic Republic of Congo is one of the world's poorest countries and is riven by conflict. But there has been no acknowledgement on the part of the world community that its debt should be cancelled because so much of it was simply stolen.[33]

Unfair trade rules

As the worldwide campaign to challenge enforced trade liberalisation and make trade rules fair gathers pace, it is important to make the links between trade and debt.

The UN believes that unfair trade rules deny poor countries more than US$700 billion every year.[34] By operating for the benefit of rich countries' agriculture and industry, the global trade regime has increased developing countries indebtedness and destroyed any chance they might have had of repaying their debts.[35]

Rich countries have used tariffs and quotas to prevent the free export of goods from the developing world. The World Bank estimates that removing these trade barriers would raise the collective export earnings of developing countries by US$100 billion every year.

On top of this, rich countries have used conditions attached to debt relief to force poor countries to liberalise their economies, often with devastating consequences. Analysis commissioned by Christian Aid shows that trade liberalisation forced on sub-Saharan Africa as part of structural adjustment programmes in the 1980s and 1990s has cost the region US$272 billion in lost earnings over the past 20 years.[36]

Penalties and exorbitant interest rates

Debt builds up when it is not paid on time because creditors charge interest on the arrears and impose financial penalties for late payment. Creditors do not need to do this – they choose to. Therefore they have to accept responsibility for the part the interest rates and penalties they have imposed have played in ramping up the debt crisis.

According to a study by the United Nations Conference on Trade and Development, Africa received US$540 billion in loans from 1970 to 2002, paying back US$550 billion. But because of arrears, accumulated interest and penalties, Africa still owed US$295 billion in 2002.[41]

Debt and trade – making the links

Tariffs on imported goods are some of the easiest taxes for developing-country governments to collect and have traditionally contributed as much as a third of government revenue in some countries.[37] As such, the enforced, rapid reduction of these tariffs in recent years has led to a significant erosion of government revenue, especially in Africa and Latin America.[38] This has meant that governments have been forced to borrow more to help finance basic healthcare, education and social expenditure.

Reductions in tariffs have led to a massive increase in developing-country imports. But the refusal by developed-countries to simultaneously open their markets to developing-country products, especially in the agriculture and textile sectors, has meant that exports from developing countries have not grown nearly as fast. Since imports need to be paid for in foreign currency, this has meant that many developing countries have had to borrow even more money to pay for the consequent excess of imports over exports.

For example, Latin American economies have had to find more than US$854 billion since 1970 to finance their trade deficit – the excess of imports over exports.[39] This has played a major role in the build-up of excessive levels of debt.

In order to generate the foreign exchange needed to both finance the purchase of imports and repay external debt, developing countries have competed to increase exports and attract foreign capital. This had led many countries to replace staple food crops, such as maize and rice, with export crops such as tobacco, cotton and coffee. Along with increased food shortages, this has contributed to a massive decline in the price of primary commodities, meaning that developing countries have been exporting more and more for less and less money. A similar story has unfolded in the mining sector.

In the first half of 1985, Thailand exported 31 per cent more rice than the year before, but earned eight per cent less.[40] The price of rice fell so much that even exporting more made less money. This problem has been experienced by all developing countries in the past three decades.

While it is normal to pay back more than you borrow (we all pay interest on loans), the poorest countries in the world are supposed to receive ‘concessional’ financing, giving them very good terms on their loans. The reality for many, however, has been the very opposite.

The Paris Club, a cartel of government creditors set up in the 1950s to help rich countries monitor repayments on loans they had made, has behaved reprehensibly in this regard. Along with the IMF, itself a major creditor, the Paris Club still operates as plaintiff, judge and jury in the court of international debt, and has allowed huge debts to build up, much as a loan shark might do.

In December 2000, for example, Nigeria went to the Paris Club to ask for help paying its debt. In its preparations, Nigeria’s Debt Management Office (DMO) worked out that, of the US$21 billion that was being negotiated, about 24 per cent was penalty and 22 per cent was interest on arrears.[42]

Prior to the election of a democratic regime in 1999, Nigerian dictators had stopped repaying Paris Club debts. Interest on these arrears and large penalties for non-payment saw Nigeria's debt balloon uncontrollably.

In fact, although Nigeria only borrowed US$13.5 billion from Paris Club creditors between 1965 and 2003, it has paid back about US$42 billion because of penalties and interest accrued. Amazingly, by 2003, Nigeria still had US$25 billion left to pay.

These figures demonstrate the mismatch between the ideal of lending to poor countries at very low rates of interest and the reality that the poorest end up paying well above the market rate.

Dr Abraham Nwankwo, the DMO's director of portfolio management, describes the Paris Club as a 'debt enhancing' not 'debt reduction' association. 'Experience has shown that [a Paris Club agreement] only succeeds in keeping debtors in a vicious circle of heavy burden,' he says.[43]

Nigeria's President Olusegun Obasanjo is outspoken on this issue. In November 2004 he said: 'To put it bluntly, penalties and interests and all sorts of questionable rescheduling are strangulating our economies and people.'

As countries began to get into trouble repaying loans from the early 1980s onwards, you might expect new lending to those countries to fall, just as it would if a person was getting into trouble with debt payments. But statistics show that there was no discernable slowdown in lending. This is partly because loans were given so developing countries could pay off old loans, meaning that net financial flows to poor countries were more often than not negative, even as they got into more and more debt.

To most people, lending to pay off loans flies in the face of common sense – welcome to the world of international debt.

Lender liability

Between them, odious debt, unfair trade conditions, and unfair penalties and interest present lenders with a sizeable share of the blame for the debt crisis. But even when loans are made in a fair way, lenders should still shoulder some responsibility if they don't work out as intended.

For every bad borrowing decision there is a bad lending decision. And even when loans from the West have been intended to benefit the poor, very often the only contribution they have made has been to the build-up of debt. According to the World Bank's 1999 Annual Review of Development Effectiveness, just 29 per cent of Bank-financed projects in Africa in the 1990s were considered likely to benefit a country's development in the long run; only 56 per cent even rated 'satisfactory'.

It is to be expected that not every loan can be productive and that mistakes are made. But should it be poor people and poor countries that always pay for those mistakes? Surely it is time for some joint responsibility.

In many cases, lenders have lent to odious regimes which they knew, or should have known, were not spending the money wisely. They have designed a manifestly unjust global trading regime that has kept poor countries poor and penalised them when they have been unable to repay their debts.

Lenders, both public and commercial, should be in the dock, too. Debt cancellation is not a question of charity, but justice. The next two chapters outline the consequences of this perspective.

Chapter 3

Fair and transparent decisions

The previous chapters have demonstrated the injustice and severe consequences of developing-country debt. The debt crisis can be solved quickly if rich-country governments act immediately to deliver a new and ambitious bout of debt cancellation for developing countries. By doing so they will play their part in saving many lives.

But instead they keep offering only limited relief to a few countries with a multitude of conditions. One of the main reasons for this is that the people being asked to cancel debt are the very people owed the money.

When a person gets into trouble repaying a debt in the UK, it is not left up to the creditors to decide how to proceed. We have developed laws that protect the interests of both the lender and the borrower. It is left to the courts to try to reach a fair decision, looking both at the circumstances under which the debt was contracted, and the implications of paying the debt on the borrower and his or her dependents.

The UK's 1974 Consumer Credit Act, for example, provides for the courts, at a debtor's request, to consider whether an agreement is extortionate, and if so to change the terms so they are 'fair and reasonable'. The UK government is planning to strengthen laws to further protect vulnerable borrowers.

On the domestic level, most countries operate like this. But the same provisions do not yet exist at an international level. This is not surprising – the UN is only 60 years old and international law is still in its infancy. Nevertheless, the present situation seems absurd.

Currently, creditors have the last word in who gets debt relief and when. According to economist Jeffrey Sachs: 'The guiding principle of official debt relief in the past 20 years has been to do the minimum possible to prevent outright disaster, but never enough to solve the debt crisis.'[44]

In effect creditors simply demand their money back, occasionally allowing more time for repayment during which interest will accumulate.

This approach is clearly not sufficient to respond to the present crisis. Instead, an independent process should be set up to make the difficult decisions about how much a country should pay without jeopardising the rights of poor people.

Debt campaigners have been calling for such a process for years, and it was part of the Make Poverty History manifesto agreed by all members of the coalition. However, the focus to date has been to get solid amounts of debt cancelled rather than campaign to change the system.

Now, because of the failure of creditors to respond with sufficient urgency, the time is right to shift the emphasis and relieve them of a role they seem unwilling – or unable – to perform.

As things stand: a creditor cartel

The Paris Club has huge influence over which countries get help with their debt payments. Its 19 members comprise the G8 countries and a selection of other rich creditor nations. At their worst, its meetings have seen finance ministers from developing countries pleading in tears for more debt relief. Its private-sector equivalent, the London Club, is made up of commercial creditors such as major international banks, and often follows the decisions made in Paris.

The IMF is also a key player in debt decisions. Itself a major creditor – and one that is very reluctant to cancel any debt at all – it judges whether a debtor country deserves debt relief from the Paris Club. It does this by assessing a country's economic policies, among other things, to see if they are acceptable. Between them, the Paris Club, the IMF and the World Bank make most of the decisions taken about debt relief and run the HIPC initiative, with its narrow selection criteria and wide range of economic conditions.

Since the beginning of the latest debt crisis in the 1970s, a range of responses have been adopted by creditors in an attempt to recoup as much as possible from hard-up debtors. The main tactic was, and still is, to 'reschedule' due payments, usually making sure to add interest.

The short-term impact of rescheduling on a country's cash flow is positive – more money is available to spend. But in the long-term arrears build up and future payments grow even more exorbitant as the debt grows and grows. So the very process that creditors claim is helping relieve the debt burden is responsible in large part for increasing it.

The case of Indonesia provides a recent, shocking example of this. The Boxing Day tsunami of 2004 devastated large tracts of the country's coastline, killing thousands and destroying millions of livelihoods. Along with calls for emergency aid, there was pressure to relieve some of the crushing burden of Indonesia's US$135 billion debt.

On 12 January 2005, the Paris Club issued a communiqué, saying that it had agreed to offer Indonesia an 'immediate and unconditional' debt moratorium. Indonesia owes the club US$47.8 billion, and was due to pay US$5.5 billion in debt service in 2005, US$1.36 billion of which was interest.[45]

As ever, the devil lay in the details, which were only announced in March 2005. The Paris Club proposed that Indonesia would not have to pay anything for the whole of 2005. But all the repayments due that year would still have to be made, with interest, in the future, starting in 2007. Indonesian NGOs urged the government to reject the deal, arguing that it would make the country worse off in the long run. However, desperate for some fiscal breathing space as it started to rebuild, it signed up.

The lack of generosity that saw creditors demanding interest from a country laid low by natural disaster was staggering. Indonesian NGOs estimate that the country needs at least half of its external debt written off if it has a chance of meeting its MDGs. Calculations by Christian Aid, ActionAid and the Jubilee Debt Campaign in 2005 suggest that it will require even more than that.[46]

Of the 81 countries that have had their debt rescheduled by the Paris Club, 40 have had five or more reschedulings since 1980 – 17 have been back seven times or more. Niger has had to go back 11 times, Madagascar 12 times and Senegal a ridiculous 14 times since it first made a deal with the Paris Club in October 1981.[47] In fact, only 11 countries have never needed to return after their first deal.

What these figures show is the failure of the Paris Club to properly deal with debt crises. Instead of responding urgently, generously and humanely, and helping put countries back on their feet, they do the minimum possible. This is not surprising: reschedulings are not offered out of generosity but expediency. As the Paris Club website explains: '…the Paris Club rescheduling has a positive effect on the expected value of the ODA [overseas development assistance] claims, as the creditors salvage value relative to the recovery of otherwise defaulted amounts.'[48]

In other words, they are raking back as much money as they possibly can. This can have appalling consequences as the world saw after Germany's defeat in the first world war. As part of the Treaty of Versailles, Germany was forced to pay 13-15 per cent of its export earnings in debt service and reparations. It is generally agreed that this highly punitive requirement contributed to the set of economic conditions that saw the rise of the Nazis. Lessons were learnt and, after the second world war, German debt payments were capped at 3.5 per cent of export earnings.

The agreement for poor countries today is that they pay up to 20 per cent of their export earnings in debt repayments – a greater proportion than Germany was charged in 1918.

And of course, politics remains a key influence in debt negotiations. Debt cancellation delivered to all countries under the HIPC scheme since 1999 totals US$50 billion.[49] But in November 2004, Paris Club creditors decided to cancel almost US$30 billion of debt owed by Iraq.[50]

Iraq has benefitted from debt cancellation while so many others have not because of the political expediency of creditors in the aftermath of the war. Jeffrey Sachs made this case compellingly when, writing shortly after the announcement of the Iraq deal, he compared Iraq with Nigeria:

'Nigeria's need for debt cancellation is dramatic. While Iraq's life expectancy is 68 years, Nigeria's is 51 years. While infant mortality in Iraq is 52 out of every 1,000 births, Nigeria's infant mortality rate is 110 out of every 1,000 births. Nigeria's extreme poverty reflects in part the fact that its oil export earnings per person are roughly one sixth of Iraq's… As usual, Africa comes last in the queue for help from the world.'[51]

There is no financial need for impoverished countries to continue paying their debts, which amount to only a few billion dollars a year. But the current debt relief system is at the core of a power game that the rich countries play to get their way in the world. A brutally honest statement made by US treasury officials in response to the suggestion that debtor countries should consider defaulting on their debts beautifully demonstrates this. Such an idea would, they said, 'negate one of the primary aims of the current debt relief system – imposing conditions to guarantee that debtor countries make economic choices that fit the free-market vision of the Treasury, the World Bank and the IMF.'[52]

Decisions made by the Paris Club, the World Bank and the IMF are arbitrary and politically motivated. The lack of a formal mechanism for working out debt crises not only prolongs those crises – it also helps to cause them.

The alternative: a fair and transparent process

In 2002 the IMF proposed a new international mechanism for 'restructuring' debt. Explaining why, Ann Krueger, the IMF's deputy managing director, argued that: 'Almost everyone recognises that bankruptcy law is an essential – if not vital – element for a well-functioning domestic economy. It is market-friendly. Surely similar reasoning, allowing for the fact that it is sovereign debt, holds in the international arena as well.'

Neither debtor nor creditor countries supported the IMF's proposal, dubbed the sovereign debt restructuring mechanism. Civil society criticised it for giving more power to the IMF rather than providing for an independent assessment of debt crises.

Nevertheless, the fact that even the IMF spent time critiquing the present system is indicative of its inadequacies.

The best formal way forward is to establish an international mechanism with neutral arbiters. This would be a forum where developing and developed countries could come together and negotiate ways of dealing with the problems surrounding sovereign debt in a fair and transparent way.

So what would a new system look like?

As things stand, when a debtor gets into a situation where it has to choose between repaying its debts and providing for the basic needs of its citizens, it has to ask for a meeting with its creditors (usually the Paris and London Clubs and the IMF) and request a rescheduling.

Under a fair and transparent mechanism, debtor countries would call for the convening of an ad hoc panel, probably based at the UN. There are many existing arbitration panels that could serve as a model.

The aim of the panel would be to assess how much of a country's debt could be repaid without jeopardising the basic human rights of its citizens or its ability to reach its millennium development goals.

One of the most detailed proposals for how such a mechanism would operate takes as its model a section of the US Legal Code. According to this law, which provides for local governments that find themselves in financial difficulties, the first consideration is the social welfare of the people living in the locality.

In this way, basic rights such as healthcare and education are assured before negotiations on how to resolve the situation even begin.[53]

This is a fundamentally different perspective to that of the Paris Club and the IMF, who operate the current financial system and are concerned primarily with getting as much of their money back as possible.

An independent panel would try to make sure that the debtor emerges from the proceedings with good prospects of financial and economic stability. The panel would also be charged with making impartial decisions about what parts of a country's debts are odious. Any odious debt would simply be cancelled.

An important part of a more transparent system would be the right of civil society to contribute to the process. They could organise debt tribunals at which the impact of particular loans would be assessed by precisely those people affected by them. The outcome of such tribunals would help decide what debt was odious or harmful and should therefore be struck off.

Once a fair, accountable process is established, the impact on future lending practices will be positive. Creditors will know that they can no longer get away with odious lending because such debts will be written off. Increased civil scrutiny of the process can only lead to better lending and borrowing decisions.

Key elements of a fair mechanism for dealing with debt crises

- **Debtor's right to petition**. Sovereign debtors would hold the unconditional right to petition to enter the insolvency procedure.

- **Neutral assessment and impartial decision-making.** Unlike the present system where the creditor plays the role of plaintiff, judge and jury, the new mechanism would enshrine the independence of the arbitration process.

- **Transparency.** Negotiations would be recorded and open to public scrutiny.

- **Participation.** Civil society would have the right to access information and to be heard during negotiations.

- **Burden sharing among creditors.** The idea is to be fair to creditors as well as debtors. All creditors, including the IMF and the World Bank, should shoulder their fair share of any debt cancellation.

- **Freeze on repayments.** There would be an automatic standstill of debt payments to all creditors during the process in order to prevent asset grabbing. [54]

Chapter 4

What should poor countries do?

That large-scale debt cancellation and a fairer arbitration process are desperately required is beyond question. However, it is unlikely that creditors will respond with appropriate urgency. Rather than acknowledging the very limited impact of the Gleneagles deal, rich-country governments appear to be patting each other on the backs. There is even evidence that some countries are trying to undermine the limited deal achieved.

A document leaked to UK debt campaigners shows that Willy Kiekens, who represents Belgium, Austria and Luxembourg on the IMF's executive board, is proposing a slow phase-in of debt relief enabling the IMF to 'monitor [debtor country] policies closely and provide financial support in a phased manner and on condition of the implementation of adequate policies.'[54]
As this report went to press, news was reaching Christian Aid that creditor countries were refusing to provide the money to pay for the debt cancellation promised at Gleneagles. We are actively lobbying to ensure that the Gleaneagles deal is delivered.

The UK chancellor, Gordon Brown, is the only prominent politician actively seeking to extend the Gleneagles deal. He is offering to pay the UK's portion of the debt service owed by 'up to 70' countries to the World Bank over the next ten years. Because of all the conditions attached, only 22 countries are currently eligible for this scheme. But it is nevertheless a significant step that should be followed by other creditor governments.

Christian Aid and the wider debt-relief movement will continue to put pressure on creditors to take the necessary steps to eliminate unfair and onerous debt.

But debtor countries should also start to explore alternative strategies to salvage their economies and people by breaking the chains of debt. Twenty-five years of working within a system rigged against them has produced important results for a few countries, but very little for most.

There are three main approaches that debtor countries should consider:

- emphasise the injustice of the debt
- be more assertive in negotiations
- reduce reliance on loans.

All developing countries are different and will have to make decisions according to their specific situations. But one thing is clear from the very limited response of G8 leaders to the global campaign in July 2005: if they wait for creditors to cancel their debts they could be waiting a long time.

Emphasise the injustice of the debt

Campaigners, especially in the developing world, have long highlighted the injustice of debt. But rich countries have gone to great lengths to suppress the notion of odious debt, stonewalling the arguments of civil society and pressurising debtor countries to do the same.

However, the recent cancellation of the debts racked up by Saddam Hussein in Iraq may have let the genie out of the bottle. On 21 November 2004, under intense pressure from the US, the Paris Club agreed to write off 80 per cent of the US$38.4 billion owed to its members by Iraq. Although there was no official acknowledgement of the odious nature of the debt, most of which was contracted by Saddam, it was one of the main arguments the US used in private negotiations with other creditors, such as

France and Germany. John Snow, the US treasury secretary, summarised his view by saying: ‘Certainly the people of Iraq shouldn't be saddled with those debts incurred through the regime of the dictator who is now gone.’[56]

As usual, the Paris Club deal on Iraqi debt came with a range of IMF conditions, but the former Iraqi National Assembly unanimously declared that, because the debt was odious, it should all be repudiated without strings. At the time of writing this situation was still unresolved. But it is likely that unless Iraq gets a good deal on the rest of its debt – the part not owed to the Paris Club, almost US$80 billion – the new elected government will revive this declaration.

The implicit recognition of the principle of odious debt in the treatment of Iraq, combined with historical precedents (such as the US repudiation of the odious Cuban debt owed to Spain in 1898) means that creditor countries should not now be able to ignore the concept. Certainly it is to be hoped that developing-countries follow Haiti’s suit in taking a stand. The poorest country in the western hemisphere, and former colony of France, has staked a claim for US$21.7 billion in compensation from its erstwhile ruler in recognition of the illegitimacy of the debts forced on it following its declaration of independence in 1804 (see the annex on Haiti).

Developing countries should also highlight penalties and accumulative interest when asserting the injustice of debt. In his years of campaigning for debt relief, Nigeria’s President Olesegun Obasanjo has regularly mentioned penalties. ‘Nigeria’s original debt stock of about US$10 billion had been paid twice over if one included the penalty for not paying and [the] penalty for the penalty,’ he said. ‘This is ridiculous. The debt that is being held against us is unpayable and unsustainable if we really want to have an equitable world.’[57]

Be more assertive in negotiations

Civil society organisations in developing countries are increasingly discussing the notion of simply refusing to pay some of the debts owed. And debtor governments who are looking to protect the welfare of their people rather than the bank balances of intransigent western creditors are beginning to consider this option, too.

This is a controversial issue. Refusing to pay debt can be dangerous; penalties from creditors for any nation going down this road have traditionally been severe and the resultant squeeze on economies has caused real hardship for poor people.

However, there have also been examples of debtor countries taking on creditors and winning. Civil organisations around the world are studying these examples closely to see what lessons might be put into practice.

Two recent experiences in Nigeria and Argentina (see pages 22 and 23), which led to positive outcomes for those nations, have grabbed the attention of many campaigners who are keen to see their own countries become more assertive with creditors.

Argentina’s decision to default on debt repayments has effectively wiped more than US$60 billion off the books, while Nigeria’s assertive stance is set to result in the cancellation of at least US$16.5 billion from a deal expected to be signed in September 2005. It is worth pointing out that together this adds up to much more than the amount offered to the group of 18 HIPC countries under the Gleneagles deal.

It is difficult to avoid the conclusion that hard bargaining with creditors, both official and private, has worked for Nigeria and Argentina. Jeffrey Sachs is one of an increasing number of development economists who suggest that if creditors continue to refuse to budge on debt, 'poor nations should act unilaterally'.[58] He suggests the money saved from not paying creditors should be registered transparently and used for urgent public health needs.

There is certainly a strong moral case for redirecting debt payments into health and education budgets. But there are also well-established concerns about defaulting, and it is correct to stress that it may not be the right option for all developing countries. The example of Peru shows that while there are assertive options available to debtor nations that do not require total repudiation, there are also risks in standing up to creditors.

When Alan Garcia became president of Peru at the height of a debt crisis in 1985, he announced that he would limit Peru's repayments to ten per cent of export earnings, arguing that: 'Peru's biggest creditor is its people.'[59] But when Peru missed a payment deadline to the IMF in July 1986, it was declared ineligible for future loans. The IMF office in Lima was shut down.[60]

Garcia's attempt to stand up to the international financial community is generally considered to have been a failure. The freeze on IMF lending was copied by many other potential lenders and investors, while penalties and arrears led to a steep build-up of debt. Eventually Peru was forced to give in and pay up.

Understandably, unilateral repudiation of debts is not a popular option among many Peruvian debt campaigners. But Filipino campaigners have not been dissuaded and are now calling for debt repudiation in their country. Presently an 'automatic appropriation' law prioritises resources for debt repayment regardless of how much money there is in the budget. Campaigners want this situation reversed so that social spending is prioritised and a clear ceiling set on debt service.

Dr Mansur Mukhtar, director general of Nigeria's Debt Management Office has expressed concerns about the 'potential consequences of such a unilateral decision on our financial standing in the international community and in the long term.'

Speaking in March 2005, he said: 'If you do this kind of action, it affects your standing and reputation. It could also affect the kinds of benefits and could have negative impact on the kinds of possibilities that you have to engage in fruitful, economic and financial relationships with other countries. That is the risk.'[61]

This threat of a 'negative impact' on relationships with other countries is the reason why South Africa chose not to repudiate the apartheid debt. (Creditors could have cancelled it, of course…)

One must also consider the specific situations in which Argentina and Nigeria found themselves.

If you owe the bank £1,000 that you cannot repay, you are in trouble. But if you owe £1 million, the bank is in trouble. Argentina's outstanding debts were vast, giving it a strong negotiating position. Also a boom in exports due to a devaluation of the currency meant that even in the midst of the depression, Argentina did not need (nor did it get) external financing.

Nigeria also has large debts. It receives only small amounts of aid every year, only a fraction of what it pays in debt service. Moreover, the price of oil has recently been hitting record highs and Nigeria had built up a significant reserve fund before parliamentarians decided to threaten repudiation.

However, poorer, aid-dependent countries whose debt is not so important to creditors may find it harder to take tough negotiating positions. Pascoal Mocumbi, prime minister of Mozambique from 1994 to 2004, said: 'If I stopped paying debt service, all my poverty-reduction money would stop from the World Bank and IMF. Fifty per cent of our budget is from donors. I can't not pay – the country would stop.'

Mozambique's fears are well founded. World Bank disbursements to Haiti were suspended between September 2001 and January 2005 as a result of overdue payments.

Smaller countries who threaten repudiation on their own are most likely to be picked off by international creditors. Lacking the strength to take them on singlehandedly, they are liable to fold when the consequences for their economies are pointed out. It is with this in mind that campaigners are looking at the option of collective action.

Just as creditors club together in the Paris and London Clubs to maximise their negotiating power, the smallest and poorest developing countries might consider acting as a group in negotiations with creditor countries to achieve quicker and fairer outcomes.

While Peru was unable to renegotiate its debt on favourable terms unilaterally, if it had joined together with other Latin American countries the resulting cartel may have been powerful enough to win negotiations with creditors. In fact, a key part of the Peruvian strategy in the 1980s was to bring other South American countries on board. However, creditor institutions such as the IMF and the World Bank lured potential allies into preferential bilateral deals so Peru became increasingly isolated.

Whatever route responsible southern governments take, it is Christian Aid's view that they should be supported if they are trying to respond constructively to the desperate need in their countries.

Reduce reliance on loans

One reason why countries are so deeply in debt is that they keep on borrowing – often to pay the debt they already owe. All developing countries should reassess their reliance on external forms of finance, especially loans, and look for other ways to gather the resources to pay for development.

Quite apart from the financial consequences of incurring debt, another huge problem for debtor countries is that of creditors interfering with domestic decision-making. Instead of responding to the democratic demands of their citizens, governments are forced to play to the tune of the international financial institutions, financial markets and rich countries that lend money and grant debt relief.

Below we propose three paths countries might consider pursuing in a bid to reduce their overall reliance on loans:

Maximise domestic sources of finance

In order to reduce reliance on loans, other sources of money need to be found, or existing revenue streams expanded. At the moment, revenue collection, particularly taxation, is weak in many developing countries, and often favours large companies and the rich over the poor.

Debt campaigners in Peru, for instance, are calling for reform to their regressive taxation system. They say that foreign companies operating in Peru, especially in the mining, banking and telecommunication sectors, should pay more tax, rather than being offered huge tax breaks as is currently the case. By making more money in taxes,

Nigeria – turning the tables on the creditors

Nigeria was removed from the list of countries that would receive debt relief under the HIPC process probably because cancelling its debts would cost creditors too much. Only since there has been a genuine threat of repudiation have creditors finally come up with a deal.

A fifth of Africans are Nigerian, and most Nigerians live in absolute poverty. The most recent statistics available (1996) suggest that 91 per cent (124 million people) live on less than US$2 per day.[62]

Nigeria's renowned oil wealth, which contributes about a third of its gross domestic product (GDP) and three-quarters of government revenue, has not helped reduce poverty in the last few decades. Following a series of vicious military dictatorships, GNP per capita, at about US$290, is below what it was when the country gained independence 40 years ago.[63]

Since 1999, President Olusegun Obasanjo's administration has committed Nigeria to a path of reform. The National Economic Empowerment and Development Strategy was launched in March 2004, aimed at rooting out corruption and reducing poverty, both by using oil revenues more transparently, and diversifying wealth creation beyond the oil sector.

But despite numerous meetings with creditors, President Obasanjo's appeals for urgent debt cancellation have, until recently, fallen on deaf ears.

In 2003, Nigeria spent US$1.6 billion repaying its debt, more than its combined spend on healthcare and education. It owes more than US$34 billion to foreign creditors, most of which was accrued under military dictatorships supported by western institutions and multinationals. In 1987, for example, under the military dictatorship of Ibrahim Babangida, Nigeria signed an agreement with the IMF and obtained a 'structural adjustment' loan of US$1.6 billion.[64] One dictator, General Sani Abacha, is reckoned to have stolen between US$2 billion and US$5 billion.[65] Today, much of Nigeria's debt is comprised of penalties and interest (see page 7).

Because of increasing demands for additional expenditure on services such as education, healthcare and roads, as well as an expanding police force and judiciary, the House of Representatives, Nigeria's lower legislative chamber, passed a motion in March 2005 asking the executive to unilaterally stop debt repayments.

The lower house stated firmly that interest and penalties imposed by creditors had turned Nigeria's debt into an unbearable burden. However, the motion was not passed by the senate, the upper house, which agreed with President Obasanjo that it was appropriate to give creditors one more chance for a negotiated settlement before opting for the extreme route of repudiation.

President Obasanjo is respected internationally as a man determined to root out corruption and address the poverty in his country. In his response to the vote by the House of Representatives he spoke of his frustration at the refusal of creditor countries to move on the issue of debt cancellation for Nigeria. He said: 'I have done everything I can in the last six years – travelled extensively, got promises – but any time we are nearly there, they would give another condition.' He added that if his appeals should 'fall absolutely on deaf ears, then I will come back and report to you, House of Representatives.' It was a veiled reference to a threat of unilateral action: a cessation of repayments and a repudiation of Nigerian debts.

In June 2005 a deal on Nigerian debt finally emerged from the Paris Club. Although it is, inevitably, too limited in its scope, failing to reflect properly the odious nature of the debt or the desperate situation of many poor Nigerians, it is a big step forward.

The creditor countries attributed the deal to the economic reform programmes being implemented by Nigeria's government. But as recently as April the media reported that Paris Club members were privately scathing about the possibility of doing any deal with Nigeria.[66]

What changed after April was that the Paris Club realised that Nigerian parliamentarians were serious about the threat of repudiation. On a trip to Europe earlier in 2005, senate chief whip Udo Udoma warned that without action the call for outright repudiation would gather strength. The longer the Paris Club did nothing, the more likely repudiation became.

Without this threat it is probable that Nigeria would at most have been offered yet another lame round of debt restructuring a few years down the line.

Repudiation would not only have been a big blow to the prestige of the Paris Club, it would also have undermined its future legitimacy. Moreover, it would have set a precedent for other debtor countries to follow.

The Paris Club offer nipped all this in the bud. But though Nigeria did not and has not repudiated its debt, it has established that the threat of repudiation can strengthen the bargaining position of developing countries.

Argentina – benefiting from default [67]

Countries are traditionally threatened with all manner of penalties if they default on loans, and the received wisdom is that they will suffer terribly. However, the case of Argentina shows that when a country is already in serious trouble, defaulting on loans may well make perfect sense.

In December 2001 the Argentine government fell apart amid mass protests, rising unemployment and a collapse of the peso. It signalled the end of an economic experiment that had been widely regarded as a proud example of free-market reform just a few years earlier. Against a backdrop of economic turmoil, Argentina defaulted, announcing a unilateral moratorium on the repayment of its public external debt.

Following its default on debt repayment, Argentina's deep economic decline continued. But it was not the default that caused the decline. Rather, it was a case of dire economic circumstances leaving Argentina with little rational choice but to default.

In early 2002 the economy was at rock bottom. The banking system had collapsed and bank accounts were frozen. Official unemployment peaked at 21.5 per cent, with another 20 per cent underemployed. More than half the population had sunk below the poverty line.

Throughout this period, Argentina was negotiating with the IMF for a rescue package that would help the economy recover. But the IMF continued to recommend the same harmful policies, such as decreasing money supply, which had drawn out the economic depression. It also used the opportunity to demand politically unpalatable changes that were unrelated to economic recovery.

On 25 May 2003, Nestor Kirchner was sworn in as president of Argentina. He pledged not to 'return to paying debt at the cost of hunger and exclusion of Argentines.'[68] He seemed prepared to stand up to the IMF by refusing to implement the most unreasonable and harmful policies it was pushing.

Kirchner announced that his government would offer only roughly 25 cents on the dollar to the private holders of defaulted debt. These private creditors lobbied their governments who in turn asked the IMF to push for better terms and a higher primary budget surplus so more money would be available for debt repayments. Kirchner refused and in March 2004 took Argentina to the brink of defaulting on its payments to the IMF itself.

An agreement was finally signed, but in August 2004 the government stopped complying with IMF demands. A large majority of Argentina's creditors surrendered their claims before the deadline of 25 February 2005 in exchange for new bonds worth roughly 35 cents on the dollar.

Argentina was able to take a tough stance because of the huge amount of money it owed to multilateral lenders – a total of US$32 billion, including US$15 billion to the IMF.

Argentina had broken the rules – a huge sovereign debt default, combined with what was widely denounced in the business press as a refusal to bargain with creditors, and a dangerous confrontation with the IMF and its backers. The consensus among experts was that Argentina would suffer severe long-term consequences such as a drawn out depression and isolation from the international markets.

But the result has been quite the opposite. The spectacular post-default growth of the economy has exceeded even the rosiest predictions. Within a few months of the default, economic recovery was underway in Argentina and there was positive growth in the last three quarters of 2002. The economy grew by 8.8 per cent in 2003 and 9 per cent in 2004 and is still going strong. Unemployment dropped from 14.5 per cent in 2003 to 12.1 per cent in 2004.[69] Investments, too, have started to return, especially after a bond-rescheduling in April 2005.

As *The Economist* put it: 'Capital markets appear to have a remarkably short memory.'[70]

governments will have to borrow less. It could pay dividends for campaigners and governments in other debtor countries to follow the example of Peru's campaigners.

Plug the leaks

Every year, developing countries receive hundreds of billions of dollars in aid, loans, private investment, export earnings and migrant remittances. But the money flowing the other way – from developing countries to developed countries – has received far less attention and is arguably more important.

Prevailing development policy has tended to focus mainly on trying to maximise resource inflows from the developed to the developing world. But it may be more appropriate to emphasise minimising the outflow of money – that is, plugging the leaks.

One of the main ways countries 'leak' money, for example, is when companies, especially multinationals, deliberately misprice goods in order to shift profits out of the country without incurring taxes. For example, some businesses have declared the price of African diamonds they have exported to be a fraction of their true value, so the real profits only show up in offshore locations. This means that poor countries are losing their natural resources without getting even close to a fair price for them.

Developing countries lose at least US$500 billion every year through individuals and corporations using a sophisticated network of notional companies in tax havens. This amounts to more than six times the US$78 billion that developing countries receive in aid. The secretive practices of banks in these jurisdictions make it almost impossible to bring the culprits to book.

With support from western governments, developing countries could prevent these practices, thus retaining for themselves money to spend on urgent needs, and reducing their reliance on grants and loans. Coordinated international action towards shutting down tax havens, eliminating banking secrecy and automatically exchanging information between tax jurisdictions would plug the biggest leaks.[71]

Better scrutiny of government decisions

There is concern among campaigners in many poor countries that their governments are not thinking hard enough about the amounts they are borrowing – and therefore end up owing. It is Christian Aid's view that further public scrutiny of the loan-contracting process will play an important part in reducing the build-up of debt in the future.

The Nigerian government, for example, is adopting measures to prevent another debt crisis in the future. Its Debt Management Office has issued a series of guidelines for borrowing in order to maintain control and transparency. And a new law now being examined in the National Assembly would require any external loan proposal by local, state or federal government to be subjected to parliamentary scrutiny.

Annex one:

Haiti – a history of debt

Once known as the Jewel of the Antilles, Haiti used to be one of the richest colonies in the world. Some economists estimate that in the 1750s the Caribbean country provided as much as 50 per cent of France's gross national product. The French imported sugar, coffee, cocoa, tobacco, cotton, indigo dye and other exotic products to be refined and packaged in France and sold all over Europe.[72]

Today it is the poorest country in the western hemisphere and one of the poorest countries in the developing world, growing at an average of minus three per cent between 1990 and 2002.[73] Approximately half of the population is illiterate and average life expectancy is less than 50 years.

Recent environmental catastrophe has worsened the situation further. In 2004 Haiti was hit by two storms – violent rains in May and Hurricane Jeanne in September. Thousands were killed, hundreds of thousands lost their homes, and millions of dollars worth of damage was done.

Despite the country's obvious and urgent problems, Haiti spent more money servicing its debt during the 1990s than on education.[74] In 2004/5 debt service made up 22 per cent of government expenditure.[75]

Apart from being morally unacceptable, an analysis of the economic and political history of Haiti brings to light another compelling reason to cancel its debt – it is largely odious and has distorted the country's ability to develop ever since independence.

Why is Haiti in so much debt?

> 'Let's be clear – we are asking for restitution. Restitution means to reimburse what you took that did not belong to you, with interest. And, to my knowledge, we are the only country that has raised the issue as such. But there are tens of other countries that were victims of colonialism, that were victims of slavery, and who are requesting reparations for the harms done to them by slavery.'

Joseph Philippe Antonio
Haitian minister of foreign affairs[76]

The origins of Haiti's debt go back around 200 years. After years of struggle against the French colonists, Haiti gained its independence in 1804. For some time France and the United States, who were the main colonial powers in the region, refused to recognise this independence as legitimate. In 1838 France belatedly recognised Haiti's independence, having pressured the new republic into agreeing to pay France 90 million francs as compensation for the financial losses suffered by the colonists. Over the next few decades Haiti was forced to borrow 70 million francs to pay the compensation and gain international recognition.[77]

As a result of the deal with France, the brutal conditions of colonialism and slavery prior to independence were exchanged for poor economic conditions because of high interest rates and large debt repayments. In total Haiti spent the equivalent of over US$21 billion dollars in today's money in paying for its independence.[78] Payments continued for almost a century.[79]

During 2003, calls grew in Haiti for France to repay some of the money it had demanded from Haiti for its independence. But French foreign minister Dominique de Villepin responded by saying that France had given €200 million (£134 million, a little more than one per cent of the restitution demanded) to Haiti in aid in recent years. However the French government did set up a Committee of Reflection on Haiti which delivered its report in January 2004. As expected, it rejected the notion of restitution because it is not recognised under international law.

In addition to debt repayments, Haiti's post-independence economic development was badly affected by US trade boycotts. Worried by Haiti's successful struggle for independence, and as part of its refusal to recognise the country's independence, the US formally shut down trade between the two countries in 1806.[80] Unofficially, trade continued on terms that benefited the US. It wasn't until 1863 that America recognised Haiti as independent, by which time decades of embargoes and colonial debt repayments had caused serious economic decline.[81]

Many of the loans taken out in the late 19th and early 20th century were either misappropriated by politicians, or were of dubious value to Haiti's development.[82] But it was not until the despotic Duvalier dynasty rose to power in 1957 that grand theft became the norm.

An estimated 40 per cent of Haiti's national debt can be attributed to the Duvalier family.[83] The debt generated by Papa Doc and Baby Doc Duvalier between 1971 and 1986 amounted to US$700 million – 78 per cent of Haiti's debt at the time.[84]

These loans were not invested in the development of the country but were used to oppress the people of Haiti during violent and corrupt dictatorships, and to increase the personal wealth of the dictators. Baby Doc Duvalier's successors estimated that, when he left the country in 1986, he took US$900 million with him, secretly invested in western banks and tax havens.[85] The World Bank and IMF had considered Baby Doc to be worthy of loans and grants.

> 'Haiti's debt to international financial institutions and foreign governments has grown from US$302 million in 1980 to US$1.134 billion today. About 40 per cent of this debt stems from loans to the brutal Duvalier dictators, who invested precious little of it in the country. This is known as "odious debt" because it was used to oppress the people, and, according to international law, this debt need not be repaid.'
>
> Haiti Support Group

As these debts were not incurred with the consent of the people, nor used to their benefit, they are odious and should not have been transferred to successor governments.[86] They should have been treated as the personal debts of particular rulers, and should have been written off when these rulers fell.

But although bilateral creditors annulled some of these debts in 1994, Haiti still has US$400 million in loans stemming from the Duvalier era.[87]

The historic legacy of independence debt and odious debts accrued by corrupt leaders has placed Haiti in the terrible situation from which it is struggling to emerge today. Decades of having to fund debt repayments have meant that vital spending on public services has been neglected, a significant factor in the country's desperate state today. Between 1996 and 2003, debt service payments doubled,[88] costing the economy around US$70 million every year.[89] The Haitian government stated that the country was paying out more than it was receiving, and its plummeting foreign reserves were no longer enough to meet debt repayments.[90]

Very little cancellation

Some Haitian debt has been cancelled. In 1994, several bilateral creditors annulled US$156 million.[91] In 1995, the Paris Club agreed to cancel two-thirds of the debt it was owed by Haiti, amounting to US$75 million. The balance was rescheduled over a period of 26-40 years.

While such piecemeal relief is welcome, it has failed to address an unacceptable situation. Neither has it been accompanied by a recognition that much of the debt is unjust and should thus be cancelled unconditionally. On the contrary, the conditions attached to debt relief have been stringent and often damaging.

Rather than cancel debt, creditors are perpetuating the absurd process of lending to repay debts. In January 2005, the World Bank announced it would give US$73 million to the Haitian government, but on the condition that Haiti paid US$52 million in outstanding arrears. While Canada gave a grant of US$12.7 million, this still left Haiti to pay almost US$40 million from its reserves to the World Bank in order to qualify for new loans.

In July 2004 representatives of 30 countries and 32 international organisations met in Washington DC to discuss Haiti's financing needs for the next two years, calculating that they amounted to more than US$1 billion. But rather than start by cancelling debt and then giving money in grants, a large proportion of the money is in the form of new loans from the international financial institutions.

More than 50 Haitian NGOs, supported by counterparts in France, have called for an immediate moratorium on the debt while an audit is carried out to decide what part should be repaid and what repudiated. Many Haitian campaigners maintain that restitution should be paid for the debts incurred at the time of independence.

Annex two:

The Philippines – debt domination

In August 2004 Gloria Arroyo, president of the Philippines since 2001, admitted that her country was going through a debt crisis, raising fears of a sovereign default among creditors.[92] The Philippines owes US$63 billion and rising.[93] Payment on interest is the biggest single expenditure in the national budget – 31 per cent in 2004, more than the spending on all social services combined.

Meanwhile, poverty levels are high and rising. The percentage of the population living on less than US$2 a day rose from 45 per cent in 1997 to 47 per cent – or 38 million people – in 2000.

Filipinos are watching as their hard-earned money is wired to the rich West.[94] And what is most galling is that so much of the debt should never have been on the books in the first place.

Why is the Philippines in so much debt?

To listen to the way the debt burden of the Philippines is discussed in the corridors of Washington one might be forgiven for thinking that it was a minor cash-flow problem caused by ineffective economic management. According to the World Bank, the Philippines is only 'moderately indebted'. But debt has been at the heart of the Philippines' poor economic performance for more than three decades, and its causes are more sinister than technocratic incompetence.

The beginning of the unsustainable Filipino external debt can be traced back to one man: Ferdinand Marcos. Marcos seized power in a military coup in 1962 and ruthlessly retained it for 24 years. Armed with dictatorial powers, Marcos reversed laws limiting the amount of foreign debt the president could authorise the government to incur and capping debt service payments. National debt duly rose from US$355 million in 1962 to US$28 billion in 1986.

The international financial institutions encouraged this borrowing. In 1970 Marcos signed an agreement with the IMF for US$27.5 million. The following year a consortium of official development assistance donors, the Consultative Group for the Philippines, was created and foreign lending increased substantially. The World Bank lent more to the Philippines than to any other country of similar size and income at this time.

The oil price boom of 1973-74 accelerated the build-up of the Philippines' external debt in two ways. Firstly, western banks targeted the Philippines, like many other developing countries, for low-interest loans. Awash with petrodollars after the quadrupling of oil prices, the banks were desperately seeking places to invest. At the same time fuel imports became more expensive.

The second oil crisis in 1979-80 further aggravated the Philippines' problems as interest rates on old loans dramatically increased. And although the country presented a high risk of insolvency, the banks continued to lend. Military aid to the Marcos dictatorship also grew by more than 300 per cent, allowing the army to swell from only 62,000 troops in 1972 to around 142,000 in 1976. Despite reports from internationally recognised bodies of torture, illegal arrests, abductions and other forms of political repression, in the Cold War climate, Marcos was the West's ally.

Had the debts accrued benefited the Filipino people – by contributing to the education or healthcare budgets, for instance – the situation may have been at least partly defensible. However, in truth, a lot of the money borrowed was simply stolen.

While in office Marcos ranked second only to Indonesia's General Mohammed Suharto (another favourite of western governments) in Transparency International's list of the world's most corrupt dictators. Although the strict secrecy laws of Swiss banks make it impossible to be precise, Marcos is estimated to have directly embezzled between US$5 billion and US$10 billion. And what wasn't stolen was very often wasted, as in the case of the Bataan nuclear power plant (see page 9).

But if Marcos was responsible for creating the debt problem, his successors have never been able to get on top of it.

After Marcos

When Marcos was finally ousted in a popular uprising, the new administration of Corazon Aquino, widow of the assassinated Benigno Aquino, a prominent opponent of Marcos, inherited his debt. Despite its clear odiousness and the hopes of campaigners in the Philippines that it would be annulled, Aquino promised to 'honour all debts' in an address to the US Congress several months after she took office.

Aquino apparently felt that reassuring creditors was more important than investing in a devastated economy. All that her administration managed to accomplish on the debt problem was a rescheduling policy approved by the World Bank and the IMF. In 1986, approximately 83 per cent of export earnings went to cover US$3 billion in debt service payments.

The priority accorded to repaying the debt was further emphasised by Executive Order 292, which required repayments to come automatically from the annual government budget.

Aquino also took on many private debts that were not being paid back. Before the end of her first year in office, she had assumed up to US$2.75 billion in private sector debts, regardless of whether the loans had been unproductive or even fraudulent.

As Aquino insisted on repaying the public and private debts of the Marcos era, she found herself short of money. So she resorted to further borrowing. As finance minister Jaime Ongpin said at the time: 'If we don't continue borrowing we will not be able to finance our growth.' Taking on further loans to pay for previous ones is a common policy for highly indebted countries.

Inevitably, the debt has kept growing ever since – in the 1990s it increased by 64 per cent every year.[95] And, in more recent years, under Gloria Macpagal Arroyo, debt has increased with government expenditure – it doubled between 1999 and 2004.[96] Today the debt stands at a daunting and destructive US$65.4 billion.

Some of the reasons for massive debt build-up are beyond the control of the government. One effect of the financial crisis that rocked Asia in 1997 was to halve the value of the Philippine peso, effectively doubling the value of its debt, which was quoted, as most loans are, in US dollars. Companies were affected by the increase in the value of debts, and they abandoned projects that had already started, including the expansion of the national railways. Similarly, privatisation projects failed and companies had to be taken under government management, their debts assumed by the state.[97]

What needs to be done?

> 'It is time to listen to our people's stories. It is time for their cries of justice to be heard.'
>
> Lidy Nacpil
> The Philippine Freedom from Debt Coalition

The government's stance on debt continues to be an accommodating one. Simply refusing to pay part or all of its debt has not been seriously considered by a Filipino government worried that access to foreign capital would dry up if such action was taken. The government is therefore trying to negotiate a debt-for-equity swap, with senior officials visiting London earlier in 2005 to discuss details. However, inherent in such a deal is the danger that foreign companies, particularly in the mining sector, might seek to expand their activities, when they have already created serious environmental problems and undermined local development.[98]

Campaigners and like-minded organisations propose an alternative approach. First, an official national audit of the debt should be carried out by congressional representatives with the participation of specialist community and non-governmental organisations. Once the information is gathered, legitimate debt should be separated from illegitimate – or odious – debt. Illegitimate debt should be unilaterally repudiated.

Alongside the official audit, an independent citizen debt audit should be carried out. Both audits need to be comprehensive and not just financial. In other words, they should review the political, social, environmental, legal and ethical aspects of the debt problem, as well as the economic impact.

The House of Representatives approved the proposal for an official audit in September 2004, although it is currently stalled in the Senate. In the meantime, the Philippine Freedom from Debt Coalition (FDC) is already organising a citizen debt audit; a range of experts have agreed to participate including lawyers, public accountants, doctors, trade union and NGO leaders, and former government officials.

Another measure advocated by civil society organisations is the repeal of the 'automatic appropriation' law, which prioritises resources for debt repayment regardless of how much money there is in the budget. Because of this law, debt does not appear in the budget and congress has no chance of scrutinising it. Government expenditure on services such as healthcare and education is thus much lower in relation to the total allocation of resources than that reported in the budget.

This situation should be reversed. Social spending should be prioritised and a clear ceiling set on debt service.

Whatever measures are adopted to deal with the outstanding debt, borrowing policies must be reviewed, so that the country does not accumulate unsustainable debt again. Many NGOs are worried that the Philippine government has increasingly turned to China as a new source of capital without analysing what the consequences of this new indebtedness might be.

A longer-term vision is required for how to build up domestic capital. For example, tax policies should be reviewed – there is a strong case for abolishing the tax breaks and holidays that are currently granted to foreign companies in an attempt to attract inward investment. Such a move would require solidarity in the region to prevent companies going where regulation is weakest.

Annex three:

Debt at Gleneagles – our analysis

The proposal signed by the G8 leaders at Gleneagles in July marks a pigeon-step forward on the road to debt cancellation for the developing world. While welcoming the action taken – particularly by the UK government – to push debt up the agenda, Christian Aid is disappointed that world leaders have done so little to deal with the global debt crisis.

We are also concerned that even the limited progress made may be undermined when details of the proposal are discussed at the World Bank and International Monetary Fund in Washington DC in September 2005.

If the proposal is implemented… the details[99]

A modest improvement for 18 countries

- The debts 18 countries owe the World Bank, IMF and African Development Bank (AfDB) would be cancelled. The countries are Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia.

- Ten more countries may qualify for this cancellation in the next couple of years if they comply with conditions set by the World Bank and IMF. The ten countries are Burundi, Cameroon, Chad, the Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, São Tomé & Príncipe and Sierra Leone.

- No new conditions would be introduced. The 18 countries have already complied with all the conditions set by the World Bank and IMF, while the additional ten listed would have to follow the already-established HIPC process.

- The deal proposes the cancellation of debt stocks in full, rather than just temporarily cancelling debt service, as some countries, including the UK, had previously suggested.

- Other multilateral development banks (such as the Inter-American and Asian Development Banks) are not included in this deal. Nor are remaining bilateral debts or commercial debts, including increasing amounts of domestic debt (debt owed to lenders based in the country).

How would it be paid for?

- Only about US$420 million would be freed up for the 18 countries in the first year, although this is set to rise gradually.

- **World Bank and AfDB:** for each dollar a country receives in debt relief from the World Bank, the Bank would reduce lending to it by the same amount. New money from donors, equivalent to the total amount of debt cancelled, would then be distributed by the Bank between 81 poor countries, including the 18. This means that the 18 countries would see the money they have available for social spending rise by an average of 38 per cent of the amount of debt cancelled, not by the full amount. For some countries, such as Mali and Senegal, the figure is as little as 13-14 per cent. The AfDB would carry out a similar process.[100]

- While the debt relief itself introduces no new conditions, these new loans from the World Bank and the AfDB will continue to be highly conditional.

- **IMF:** the details of how the IMF would cancel its debt are still murky, something that worries campaigners. According to the proposal, IMF debt cancellation would mostly be funded using the IMF's own resources, and future disbursements would not be affected. This means that the debt relief is fully additional, amounting to more than US$1.2 billion over the next three years.

Other developing countries

- No other developing countries would receive any debt relief from this deal. Ten more countries – besides the ten already listed on page 31 – are theoretically eligible but are unlikely to meet the HIPC conditions.

- Eighty-one countries would receive very small increments in their aid as part of the new money available via the World Bank and AfDB, which would be lent at concessional rates and have strict conditions attached.

Also in 2005

- The Paris Club (where G8 members play a dominant role) agreed to cancel about US$17 billion of Nigeria's debt, which is an important step forward, although not nearly enough if Nigeria is to meet its millennium development goals.[101] Nigeria won this relief only after the implicit threat of default worried Paris Club creditors.

- Gordon Brown, the UK's chancellor of the exchequer, is proposing to pay the UK's portion of the debt service owed by up to 52 more countries to the World Bank, IMF and AfDB. To qualify countries must meet conditions set by the UK – only four countries qualify so far.

Conclusion

Given the hopes of campaigners for a decisive break with the past, the G8 proposals are a deep disappointment.

- Only 18 (rising to 28) out of 153 developing countries would receive debt relief, leaving the vast majority of countries in the world unaffected.

- The heavily criticised HIPC process would be reinforced rather than replaced – arbitrary selection criteria remain very much in place, as do heinous conditions which aim to promote economic liberalisation and have thereby helped undermine many developing-country economies.

- There is still no recognition by rich countries of the part they played in the build-up of the South's unpayable debts.

- Only the debts owed to the World Bank, IMF and AfDB are addressed, ignoring large amounts of debt to other creditors.

- As always, the money allocated for debt relief by rich countries would be taken from aid budgets.

Campaigners will be pleased with some aspects of the proposal. The financial situations of 18 poor countries will marginally improve if the deal is implemented, potentially rising to 28 if the further ten countries pass economic and governance conditions.

Tanzania, for example, will be about US$220 million better off over the next three years. If spent on healthcare and education, this money could save lives and put children through school. And Nigeria, home to a fifth of all Africans, will receive significant debt relief for the first time, albeit far less than it needs.

Meanwhile the fact that IMF debts are included despite resistance from some quarters is in large part thanks to successful campaigning, as are the further unilateral commitments made by the UK government. We are getting there.

But the details of how even this limited deal will be financed are still vague, and as this report went to press, news was reaching Christian Aid from Washington DC that elements within the World Bank and IMF were seeking to delay the deal's implementation and undermine important details.

The proposal remains just a proposal until the money is found to finance it and the executive boards of the World Bank, IMF and AfDB vote it through.

Campaigners need to ensure that this proposal becomes a reality, despite its paucity of ambition. They need to continue to insist that politicians act according to the will of their populations by cancelling the debts of all the countries that need debt cancellation to make poverty history now, and not in drip-feed manner.

In September 2005 debt campaigners from around the world will meet in Havana, Cuba, to plan the next phase of the campaign.

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Christian Aid works in some of the world's poorest communities in more than 50 countries. We act where the need is greatest, regardless of religion, helping people to tackle the problems they face and build the life they deserve. At home and overseas, we campaign to change the structures that keep people poor, challenging inequality and injustice. In Peru, Christian Aid works with 13 partner organisations, helping vulnerable people to build sustainable livelihoods, and supporting those affected by HIV/AIDS.

The people pictured on the cover come from countries which, although in urgent need of debt cancellation, will not receive any under the G8's recent Gleneagles proposal

Front cover pictures:

1	2	3
4	5	6

1. **Salome Lucas from Guatemala,** Christian Aid/Judith Escribano
2. **Arwan Ali from Bangladesh,** Christian Aid/Mohammadur Rahman
3. **Hannah Wambai from Kenya,** Christian Aid/Georgie Treasure
4. **Nur Mamayog from Philippines,** Christian Aid/John Challicom
5. **Celio Palacio Durand from Peru,** Christian Aid/Kim Naylor
6. **Mother and child from Haiti,** Christian Aid/Leah Gordon

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