American Friends
Service Committee

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Testimony of

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After years of public education, protest and advocacy the international debt cancellation movement has achieved a victory. On June 11th, the finance ministers of the world's wealthiest nations, the Group of 8 or G-8, announced 100% debt cancellation for fourteen nations in Africa and four in Latin America to the International Monetary Fund (IMF), World Bank, and African development Bank (AfDB). The G-8 includes Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.

After twenty years of involvement with the global campaign to cancel debt, AFSC is delighted that Mozambique, Zambia, Tanzania and 11 other impoverished countries in Africa now have the ability to invest in their own development. Over the past two years the Africa Program has sponsored a campaign, *Life Over Debt,* which works to increase awareness of Africa's debt and the need for its cancellation.

While this victory establishes a crucial precedent for providing 100% debt cancellation for impoverished nations, the $40 billion estimated debt stock being cancelled for these eighteen countries is just a fraction of Africa's total estimated external debt of $300 billion. Furthermore, the bulk of this crippling debt is also illegitimate and odious. Odious meaning the debt was incurred after a period of occupation or under corrupt regimes and used for repressive purposes, not for public welfare. The people who suffered under those regimes and who received no benefits from the financial windfall of these lending institutions should not continue to be held accountable for the debt.

canceling what is often odious and illegitimate in the first place, reinforces strategies that have failed to lift these countries out of poverty.

G-8 Deal Background

With almost 30 million HIV positive people, chronic famine, conflict and economic inequality, Africa's multiple crises require a special response. The case for debt cancellation is clear: despite repaying more than 90 percent of the $294 billion in disbursements Sub-Saharan African countries received between 1970 and 2002, the region remains strapped with $240 billion in debt, according to the United Nations Conference on Trade and Development (UNCTAD).

In light of this injustice, and recognizing the odious nature of the debt, AFSC joined its global partners in calling on the G-8, which controls the decision making of the international financial institutions, to cancel 100% of the multilateral debt owed to the IMF and World Bank.

In response to growing pressure and recognition that debt levels held by heavily indebted countries were unsustainable, the G-8 ministers indicted they would begin to consider 100% debt cancellation during the June 2004 summit meeting.

Recognizing a political moment was unfolding, AFSC joined Jubilee USA and partners from the Global South in a concentrated advocacy effort to insist the G-8 cancel all impoverished countries' multilateral debt. As part of this, AFSC launched a letter campaign to U.S. Treasury Secretary Snow that gathered over 2,000 letters. Together we called for:

- 100% cancellation of multilateral debt for all impoverished nations—not just those included in the HIPC initiative—without harmful conditions attached; and
- Debt cancellation financed by selling IMF gold, using World Bank accumulated profits, and by stopping the IMF's problematic structural adjustment lending in poor nations.

In the weeks leading up to the June 11th deal, the G-8 countries remained polarized over which countries should receive debt cancellation, which institutions should be included and how cancellation would be financed. A final compromise was reached between British Prime Minister Tony Blair and President George Bush on June 10th, establishing the basis for the G-8 deal announced by its finance ministers the next day.

Context for the deal

The fourteen African countries included in the G-8 plan are Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Although the specifics remain vague, the deal includes the following:

- A call for 100% debt stock cancellation of outstanding obligations for countries that have reached the HIPC program completion point.

- Donor countries will provide additional contributions based on agreed burden shares, to offset lost funds to the AfDB and the World Bank International Development Association (IDA) program; a program which lends only to the governments of low-income countries.
- The cost of fully covering IMF debt cancellation should be met by the use of existing IMF resources (excluding gold sales), without undermining the Fund's financing capacity.
- A new trust fund to support poor countries facing commodity price and other exogenous shocks.

Though the debt stock being cancelled for these eighteen countries is substantial in nominal terms, it is modest compared to Africa's estimated total external debt of $300 billion. Regardless, this cancellation is an important first step for these countries and their citizens who stand to save a total of $1.5 billion a year in debt repayments, resources which could be invested in health services, education and poverty eradication.

The IMF portion of this debt cancellation deal will not be financed through the sale of the institution's vast undervalued gold reserve, estimated at about $35 billion. Instead it will be funded with other existing IMF resources and some additional G-8 country contributions. The U.S. will contribute between $1.3 billion and $1.75 billion to be paid over the next decade, equivalent to 3% of total U.S. aid flows. This route to repayment is one that AFSC and our partners view as a setback because it fails to tap into the IMF's vast resources that could finance the additional 34 African countries in need of debt cancellation.

What G-8 debt cancellation deal means on the Continent

Reactions to the debt cancellation deal among government and civil society representatives in Africa have been mixed. Zambian officials have already shared Zambian's plans for investing the money in civil society, including recruiting 7,000 qualified teachers who have been waiting for a lift in HIPC imposed hiring freeze . In addition the country plans to use some of the freed resources to provide AIDS drugs for 100,000 by the end of the year, increasing access to the estimated 920,000 infected with the disease.

Meanwhile Kenya, a country that has always met its debt obligations, was excluded from the deal and will

Typical HIPC program conditions ensure that countries:

- Balance their budgets at a great cost to human life and well-being. Balancing the budget forces countries to cut spending and subsidies on basic public services such as health and education, thereby making these services less affordable to ordinary people.
- Cut down the size of their governments by laying off thousands of government workers.
- Privatize state owned industries—an act that cuts tax revenue and often results in increased prices for essential goods and services.
- Open their country to foreign trade and investment, thereby subjecting local industries to compete with huge foreign multinational corporations and subsidized goods.
- Promote cash crop or mineral export industries in order to earn foreign currency to pay back the debt, which adds no value to local production and makes them vulnerable to dropping world market prices.

continue to pay $414 million a year in debt service payments at the expense of much needed investment in health and education.

Using the wrong criteria for debt cancellation

The continued use of the HIPC program as the criteria to determine which countries will receive debt cancellation is misguided. This criteria "is itself a sign that debt cancellation is being treated as a question of charity and not global justice," said Charles Mutasa, Acting Executive Director of the African Network on Debt and Development (Afrodad), "The agreement does not address the real global power imbalances but rather reinforces global apartheid," he added.

The 18 countries included in the G-8 deal have already fulfilled many damaging and undemocratic economic policy conditions. In the case of Zambia, in order to reach the HIPC program completion point, the government had to cut expenditure for public services over and above the decades of cuts that the debt regime had already forced on the country. One manifestation of this was a three-year freeze on teacher salaries and new hires. Eager to ease political pressures from this and other budget cuts, the government implemented universal education allowing all students to attend school free of charge—causing classroom ratios to jump from 1 to 25 to 1 to 50 or more with many students attending school for the first time.

Not only are the conditions for HIPC program completion perpetuating a failed development model, but the process is all together unacceptable because it denies the right for governments to be self-determinate in policy creation and implementation.

Future deals for debt cancellation will be limited to countries who meet these or other anti-democratic, conditions (see HIPC conditions box). Although another nine African countries are likely to complete the HIPC program and qualify for full debt cancellation in the next 12-18 months, the program will leave behind twenty-three African nations that deserve to have their debts canceled. The nine countries scheduled to reach HIPC completion point include: Cameroon, Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, Sao Tome and Sierra Leone. Debt Cancellation for these countries is estimated to cost an additional $11 billion.

Debilitating poverty experienced by millions in Africa today will not be solved with more of the same economic models. Unless drastic changes are made in the lending and debt relief paradigm—one that is based on undemocratic conditions—there will continue to be an aggravation of poverty leading to increased insecurity and more violence.

Additional countries in need of debt cancellation

The case for debt cancellation for more countries is clear. There are 34 countries on the Continent that deserve and need cancellation of their odious or illegitimate debt to meet the Millennium Development Goals (MDGs) adopted unanimously by the Millennium Summit of the UN General Assembly in 2000.

Six thousand Africans die daily from the combined forces of HIV/AIDS, chronic famine, and poverty-related illness. This is compounded by harmful conditions imposed on poor countries that limit governments' ability to engage creative solutions that prioritize human needs over paying illegitimate debts. With a deal that will only relieve the Continent of about $1.5 billion a year in debt payments, African nations left out of this deal will continue to transfer over $11 billion dollars in debt service to rich Western nations annually. This does little to reverse current trends which see the nations of Africa spending up to five times more on debt repayment per person than they spend on health care and education for their people.

The fight to combat the HIV/AIDS pandemic will continue to be undermined by the demands of debt repayment. By and large, the majority of Africans did not benefit from debt monies. Much of the debt was created by dictators or ill-advised and imposed economic adjustment plans. These same people will continue to be denied access to vital health, education and other public services because their governments are using scarce resources to repay loans. Until the chains of debt are broken, African nations will be unable to mount any kind of a response to the growing AIDS crisis.

The original HIPC list was constructed by creditors in 1996, excluding some countries clearly in need of debt cancellation (such as Kenya, South Africa and Angola). Today, those that have met all the HIPC program conditions and reached completion point are not only benefiting from the debt cancellation deal, but the majority of new aid. HIPC completion criteria have become the standard donors now use to establish which countries are a good aid investment.

Looking forward

"Our aim remains unchanged as we prepare for the G-8 meeting and beyond; we will continue to advocate for the inclusion of many more countries under the umbrella of debt forgiveness," says Mary Ellen McNish, General Secretary of AFSC. "And for the removal of the counterproductive, nearly impossible conditions that have been set for other debt-ridden countries to qualify for relief."

AFSC is committed to working to:
- Expand the debt cancellation country list
- Remove HIPC as the eligibility criteria
- Remove any form of conditionality

AFSC will do this in the following ways:
- Work with U.S. Congress to pass the Jubilee Act (H.R. 1130), now co-sponsored by 73 members, which calls for 50 countries to be included in debt cancellation deals without harmful conditions.
- Continue to put pressure on the U.S. Department of Treasury, the IMF and the World Bank to establish a new yardstick for debt cancellation eligibility.
- Work with Civil Society groups in the Global South and in G-8 countries to campaign to remove conditionalities.

I. Appendix – African Country Eligibility

HIPC 18 *Post-Completion Point*	**HIPC 9** *Close to Completion Point*	**HIPC 11** *Other Possibly Eligible Countries*	**Excluded African Nations**
1. Benin 2. Burkina Faso 3. Ethiopia 4. Ghana 5. Madagascar 6. Mali 7. Mauritania 8. Mozambique 9. Niger 10. Rwanda 11. Senegal 12. Tanzania 13. Uganda 14. Zambia	1. Cameroon 2. Chad 3. Democratic Republic of Congo 4. Gambia 5. Guinea 6. Guinea Bissau 7. Malawi 8. Sao Tome 9. Sierra Leone	1. Burundi 2. Central African Republic 3. Cote D'Ivoire, Comoros 4. Republic of Congo 5. Liberia 6. Somalia 7. Sudan 8. Togo	1. Angola 2. Cape Verde 3. Djibouti 4. Equatorial Guinea 5. Eritrea 6. Gabon 7. Kenya 8. Lesotho 9. Mauritius 10. Namibia 11. Nigeria 12. Rwanda 13. Sao Tome and Principe 14. Seychelles 15. South Africa 16. Swaziland 17. Zimbabwe

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