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Debt and the Tsunami Disaster

The terrible disaster in Asia has brought the affected countries into our homes and opened up yet another crisis they face – the debt crisis. Debt payments have been draining desperately needed resources for years. The countries hardest hit, Indonesia, Sri Lanka and India, together paid a massive $50 billion in debt payments in 2002.

Sri Lanka, a poor country of 19 million people paid out a staggering $753 million in debt payments in 2002.

Indonesia is heavily indebted. It's debt was run up by a corrupt, repressive regime since 1966. Part of this debt consisted of loans to buy arms. Almost half of the debt owed by Indonesia to the UK for example arose from arms sales. Further the World Bank has admitted that a third of the loans it made to the Suharto regime was used for corrupt purposes.

Indonesia's debt soared as a result of the Asian financial crisis at the end of the 1990s and now stands at a massive $132 billion. A quarter of government revenue goes towards debt repayments while Indonesia pays ten times as much on debt servicing as it does on health.

How are creditors proposing to deal with the debt of tsunami affected countries?

The main proposal at the moment is a "debt moratorium." This means that countries would not have to make debt payments during the period of the moratorium. This is just a breathing space and it would not mean any debt cancellation.

What happened at the Paris Club meeting 12 January?

At the Paris Club meeting last January 12, the rich country creditors agreed to a temporary freeze on debt payments from Indonesia, Sri Lanka and the Seychelles , however, debt owed to the multilateral bodies such as the International Monetary Fund (IMF) and World Bank will not be included.

G7 Announcement on Debt: Is it really 100% Debt Cancellation at this time?

" We are agreed on a a case-by-case analysis of (Heavily Indebted Poor Countries) HIPC countries, based on our willingness to provide as much as 100% multilateral debt relief" (G7 Finance Ministers Conclusions on Development, London 4-5 February 2005)

Does the G7 language translate into 'a willingness to act'?

Having fought the good fight we now find the G7 speaking the language of '100% debt relief'. However, the vagueness of their statement suggests a lack of unanimity and commitment among the G7.

How many countries ?

There are 42 Heavily Indebted Poor Countries (HIPC) as defined by the IMF and World Bank. Given that the G7 talk about a case-by-case basis, it is highly unlikely that the 42 would be covered. There are in fact, many more poor countries which need debt cancellation and are not defined as HIPCs.

Are there strings attached?

When the G7 finance ministers use the term 'on a case by case basis' it suggests that there will be eligibility criteria, i.e. Conditions. Already Heavily Indebted Poor Countries (HIPC) countries have had to meet massive amounts of conditions in order to receive debt reduction. Most controversial among these have been conditions to privatize state companies, in particular utilities like electricity, and water, and to cut public spending. It would be outrageous if countries have to meet further conditions to receive the extra debt reduction.

How will the debt cancellation be financed?

International Monetary Fund (IMF) Debt: The IMF will produce proposals for their April '05 Spring meetings identifying how IMF resources could be used to cancel IMF debt, in particular the use of IMF gold.

World Bank Debt and African Development Bank debt: Proposals will be put forward by the management of these bodies for agreement at the Spring meetings April '05 as to how debt cancellation to these two bodies could be funded.

Where do individual G7 countries stand on 100% multilateral debt cancellation?

Members of the G7 are deeply divided on whether 100% cancellation should be made available and how many further debt cancellation should be financed. The G7 finance ministers meet in closed session and produce a short statement couched in general terms at the end of their meetings.

Britain has led in pressing the case for 100% cancellation of multilateral debt service up to 2015. It supports the use of IMF gold to write off debt owed to IMF. It calls on rich countries to fund cancellation of World Bank and African Development Bank debt. Britain has committed to paying off 10% of debt service owed to both of these banks which it estimates as its share of these debts. Britain is calling on other countries to do the same.

Canada, supporting the British approach, is proposing to pay 4% of debt service owed to the World Bank and African Development Bank, which it estimates as its share of these debts. Canada recognizes the need to cancel debt owed to the IMF also but has reservations about using IMF gold.

While the US has recognized the need for debt cancellation, it is unwilling to provide any new resources to fund this. In addition, the US has reservations about the use of IMF gold to fund debt cancellation.

Japan opposes 100% debt cancellation as a matter of principle. Germany has reservations about multilateral debt cancellation and insists on a case-to-case approach. While France is willing to consider gold sales, its position on 100% debt cancellation is not clear.

The emphasis on a case by case approach by the G7 and the fact that the British and Canadian proposals only cover a small number of countries highlights that the creditors are deciding which countries should get debt cancellation . This is a decision which should be made by an independent and fair process.

Next Steps

The G7 is an informal network of the richest and most powerful countries (as defined by themselves). It is not an implementation body. Its proposals on debt will, therefore, be processed through the IMF and World Bank. The next major meeting of these bodies is their Spring meetings which will take place on April 15-17 in Washington. Proposals on how IMF and World Bank resources could be used for further debt cancellation are to be discussed at these meetings.

Ireland's role :

While Ireland is not a member of the G7 we are members of the IMF and World Bank. We must build on our campaign between now and the IMF/World Bank Spring meetings in April to ensure that the Irish government supports the maximum use of IMF and World Bank resources for debt cancellation. In particular we should urge the government to press for the sale of IMF gold for debt cancellation.

Debt and Development Coalition Ireland
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For more information visit
www.debtireland.org

New Orleans Bread for the World
Loyola University New Orleans
Campus Box 907
New Orleans, LA 70118
Phone: 504.861-5334
Fax: 504.866-8451
Email: gcnfj@loyno.edu
Website:www.globalnetwork4justice.org

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Jubilee South Call To Action

Africa Action Update: Debt and Darfur

The G7 has no Intention of Canceling Debt