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DEBT RELIEF AS IF PEOPLE MATTERED

A rights-based approach to debt sustainability

Rethinking International finance | 1

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G* summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.

Debt sustainability has, until now, been narrowly assessed according to a country's ability to pay in terms of its export earnings – regardless of other demands on public funds. This prevents governments in many developing countries meeting the basic needs of their citizens.

A new approach to debt sustainability that takes this into account is urgently needed. Such an approach would need to look at all indebted countries regardless of income and calculate the level of debt they could carry without compromising on human rights. It would highlight the need for a major cancellation of unpayable debt and for a significant increase in the proportion of aid which is in grant form. Without such an approach attempts to reduce poverty and promote sustainable development

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Foreword

This research paper is intended as a first step towards the development of an alternative blueprint for the international financial system, backed widely by global civil society.

It forms one of three components of three integrated proposals to deal with current and future debt crises. The three components are:

- a fair and transparent international arbitration process (as outlined in our report *Chapter 9/11? Resolving international debt crises – the Jubilee Framework for international insolvency*, available at: www.jubileeresearch.org/analysis/reports/jubilee_framework.pdf)
- criteria by which this process would assess the level to which debts should be reduced (set out in this research paper)
- processes and criteria by which debts would be judged to be odious, illegal or illegitimate (to be covered in a further research paper scheduled for September 2006).

Subsequent research papers will cover avoiding and resolving financial crises, and mechanisms to ensure that developing countries are able to access sufficient external financing in the right form for sustainable human development.

If these proposals are to receive the backing they require to have a chance of becoming reality, they need to be fully informed by global opinion, particularly in the South. We therefore encourage everyone who receives this research paper both to distribute it as widely as possible (including through websites and listserves), and to send their comments on it to the author, Steve Mandel, at stephen.mandel@neweconomics.org. Please indicate whether you are commenting in a personal capacity or on behalf of an organisation, and in the latter case the name of the organisation.

Specifically, we would like to know your views on the following questions.

1. Is the general approach set out in the paper an appropriate way of assessing the extent of debt cancellation required now and in future debt crises?
2. If not, what would be a better way of assessing this?
3. What are the appropriate values for the various parameters used in the calculation?

To assist you in responding to the final question, we have posted an interactive spreadsheet on our web-site, at www.neweconomics.org, which users can download to see the effects of changing the parameters.

We would also appreciate your comments on the Jubilee Framework set out in *Chapter 9/11? Resolving international debt crises – the Jubilee Framework for international insolvency*.

Please also email Steve Mandel (stephen.mandel@neweconomics.org) if you would like to receive electronic copies of future research papers in this series and other reports produced by **nef**'s New Global Economy programme.

Acronyms and abbreviations

ADB	African Development Bank
ADF	African Development Fund
BWI	Bretton Woods institutions
CAFOD	Catholic Fund for Overseas Development
CIDSE	International Cooperation for Development and Solidarity
DAC	Development Assistance Committee
Eurodad	European Network on Debt and Development
FTAP	Fair and Transparent Arbitration Procedure
G7	Group of 7 countries: Canada, France, Germany, Italy, Japan, UK, USA.
G8	Group of 8 countries: The G7 plus Russia
GDF	Global Development Finance (annual publication of the World Bank)
GDP	gross domestic product
GNI	gross national income
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (soft loan window of World Bank)
IMF	International Monetary Fund
LDC	least developed countries
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NPV	net present value
OECD	Organisation for Economic Cooperation and Development
PDV	present discounted value
PPG	public and publicly guaranteed debt
PRSP	Poverty Reduction Strategy Paper
PRSC	Poverty Reduction Support Credit
WDI	World Development Indicators (The World Bank's annual compilation of data)
WHO	World Health Organisation
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization

Summary

This is the second of a three pillar approach to debt relief produced by Jubilee Research at **nef** (the new economics foundation). It promotes a concept of debt sustainability which puts the rights and basic well-being of people first and those of the creditors second. We believe it is a fundamental human right to have basic needs met – for food, clean water, shelter, education and health

The amounts currently committed to relieve the debts of low and middle-income countries fall far short of the levels needed. In adopting the UN Millennium Development Goals (MDGs), all the world's countries have made a commitment to reduce global poverty by 2015. The Millennium Goals also reinforce earlier commitments to universal rights, including in health and education. But the MDG targets will be impossible to meet as long as developing countries have to use vast shares of their resources to meet crippling debt service payments.

Traditionally, debt sustainability has been judged along narrow financial lines. A country's ability to pay is assessed by looking at its income, primarily from export earnings, with no account taken of the demands on government funds. In many of the world's poorest nations, debt service payments have taken precedence over providing people with a basic standard of living. The approach set out in this research paper provides a much needed alternative.

National governments have an obligation towards their citizens to provide for the meeting of their basic needs. If a government can only meet its debt service payments by taxing poorer citizens so that they cannot pay for enough food or shelter and by failing to provide basic health and education services, this violates human rights.

So our approach to debt sustainability takes as its starting point the amount of revenue that a government can be expected to raise without increasing poverty or compromising future development. This means: protecting government spending needed to meet basic human development needs as well as not taxing those people who already live below the poverty line.

We also adopt an ethical poverty line of $3 per person a day – a level more compatible with human rights to well-being and health than the $1 and $2 a day poverty lines used by the World Bank and others. Based on this, and using data for 136 countries, we calculate which will need 100 per cent cancellation of their debts and which will need some debt relief to reduce their debt to a sustainable level. The results show that:

- Of the 136 countries surveyed, between 51 and 54 needed complete cancellation of their debts and between 32 and 53 needed partial cancellation on human rights grounds.

- Based on the ethical poverty line of $3 a day, the net present value of debt that should be cancelled is between $424 and $589 billion.

- This amounts to between 31 and 43 per cent of all outstanding developing country debt. **This sounds a lot until it is compared with the shortfall in the aid target of 0.7% of rich countries' GDP, which was $120 billion in 2005, alone. If the North had met the target each year since 2000 it could have wiped out all this debt.**

- We also carried out the same calculations using the more typical $2 a day poverty line. Even at this lower level, our results show that substantial further debt cancellation is needed for a wide range of countries if their debt is to be brought down to sustainable levels.

Substantial debt relief is urgently needed beyond that provided under the Heavily Indebted Poor Countries (HIPC) initiative and the 2005 G8 deal.

Introduction

Debt sustainability has, until now, been narrowly assessed according to a country's ability to pay in terms of its export earnings – regardless of other demands on public funds. This prevents governments in many developing countries meeting the basic needs of their citizens. A new approach to debt sustainability is urgently needed in order to reduce poverty and promote sustainable development.

The United Nations (UN) Secretary General, Kofi Annan, in his report submitted for decision to Heads of State and Government at the September 2005 High Level Meeting on Finance for Development, commented that the "$54 billion committed for debt relief to 27 countries under HIPC still falls far short of what is needed". The report continued, "to move forward, we should redefine debt sustainability as the level of debt that allows a country to achieve the Millennium Development Goals and reach 2015 without an increase in debt ratios. For most HIPC countries, this will require exclusively grant-based finance and 100 per cent debt cancellation, while for many heavily indebted non-HIPC and middle-income countries, it will require significantly more debt reduction than has yet been on offer."

This research paper seeks to develop the concept of debt sustainability on the basis of human rights. The Bretton Woods institutions'[1] (BWI) concept of debt sustainability[2] should rather be called 'debt repayability' since it relies solely on the capacity of a country to service its debts in terms of export earnings and (to a lesser extent) government revenue without regard to the demands on these resources. We argue that it is essential to take the latter into account when looking at debt sustainability. This means putting the rights of the population of a country to a basic standard of living above the rights of creditors to extract debt service on the loans they have made to the government (and former rulers) of that country. The concept has been gaining prominence over the last few years, as witnessed by the views of Annan quoted above as well as a number of recent papers. The Monterrey Consensus[3] paper states that "future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration".

This research paper forms one part of a three-pronged approach to debt relief from Jubilee Research at **nef**. The first element was the Jubilee 2000 campaign for debt relief on the grounds of justice, which included a proposal to set up a Fair and Transparent Arbitration Procedure (FTAP) based on the concept enshrined in Chapter 9 of the US penal code for domestic government structures.[4] An FTAP would also be needed to deal with odious debt, since an independent arbiter is essential if both parties (creditor and debtor) are to accept the process. Naturally this will be a lengthy process, which has to proceed country by country and debt by debt; so while it might be logical to cancel illegal and odious[5] debt before considering unsustainable debt, the nearly 45 per cent[6] of the world's population who live under the crushing burden of living on less than $2 a day in purchasing power parity (PPP) terms[7] cannot afford to wait – every day of delay means more unacceptable suffering and unnecessary deaths.

The Bretton Woods Institutions' concept of debt sustainability should rather be called 'debt repayability'

Debt relief initiatives have a history of being too little and too late

As the second prong of our approach, this research paper looks at debt sustainability and argues that many of the poorer countries of the world are carrying debts that cannot be paid and whose servicing precludes the meeting of the basic human rights to food, shelter, clean water, health and education. The research paper develops work published by CAFOD in 1998[8], continued by Jubilee 2000 in 2000[9] and by Eurodad in 2002[10] in a concept note on the issue.

The third prong will be an examination of the question of odious debt, expanding the argument that creditors should bear some of the responsibility for lending where debts have been incurred by regimes that were unrepresentative, where there was little or no benefit to the population, and where creditors knew this to be the case.[11] Our concern with debt relief is one facet of our approach to international flows which focuses on putting well-being at the core of economic policy.

To date, all debt relief initiatives have been dominated by the creditors, and debt rescheduling has been designed to serve creditor interests, which have included maximising the flow from debtor to creditor, and promoting rich country and transnational corporation access to Southern economies through trade liberalisation and privatisation. These initiatives have a history of failing to get any country out of serious debt problems. In most cases, where debt has been written off, the original loan has already been repaid, and typically the remaining sum consists largely of penalties, interest and interest on arrears. We argue that the present narrow fiscal approach to debt sustainability has no regard for the impact on the welfare of debtor country populations. It is a violation of human rights if governments are forced to cut back on expenditure required to meet basic human needs – the rights enshrined in the UN Charter, the Convention on the Rights of the Child, the Charter of the World Health Organisation (WHO)[12], etc., for basic education, health, water, shelter and food – in order to pay debt service; nor should they be required to tax those of their population who are already living below the poverty line, which would worsen their already severe difficulties in meeting these basic needs.

Background

A serious debt crisis developed during the late 1970s and 1980s, when rising oil prices, aggressive lending and declining commodity prices combined to leave both middle and low-income countries with unsustainable debt.

The level of public and publicly guaranteed (PPG) debt increased rapidly until 1995, and since then has only stabilised, despite debt relief, as illustrated in Figure 1. The level of private debt has continued to rise, apart from a brief lull in 2000. Both low and middle-income countries' PPG debt has followed the same pattern, as can be seen from Figure 2. Clearly, to the extent that debt stock has been cancelled, it has been replaced by new debt. Debt relief has always been too little and too late and has been accompanied by conditionality which has undermined national sovereignty and made matters worse by imposing austerity measures, privatisation and trade liberalisation; often to the detriment of the national economy of the countries concerned.

It is striking that the change in PPG debt stocks follows much the same pattern for middle- as for low-income countries. However, the composition of that debt is different – the low-income countries have very little commercial debt – most of it is with the bilateral and multilateral creditors.

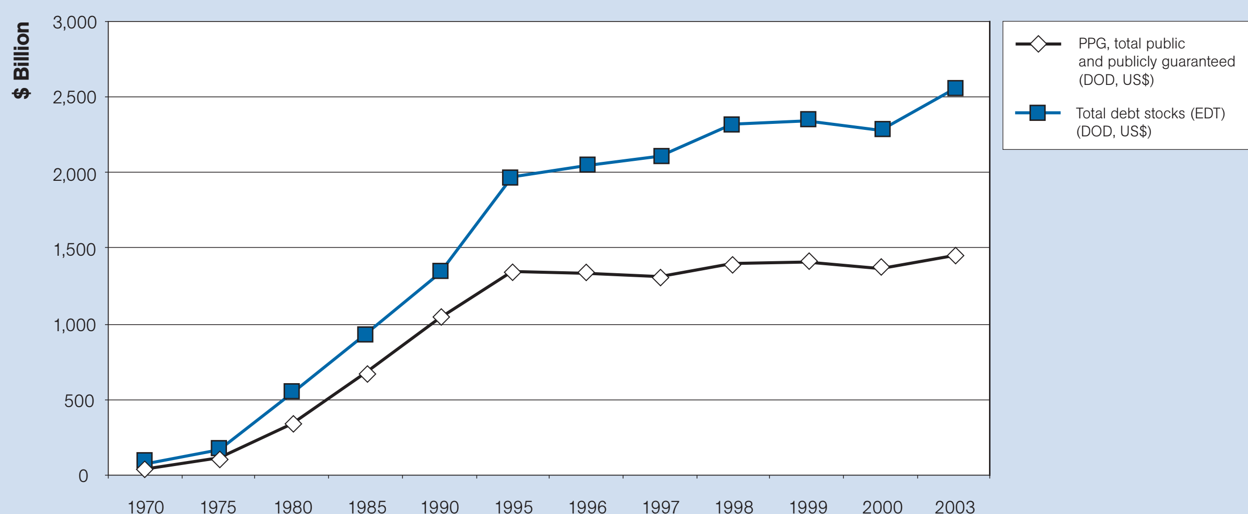
It is notable that private debt is only significant after the early 1990s

Net flows

To investigate the extent of defensive lending[13] and to illustrate the effect of debt relief schemes we plotted the gross lending, net capital flows, interest payments and grants for all developing countries[14] from 1970 to 2004. The results are presented in Figures 3 and 4.

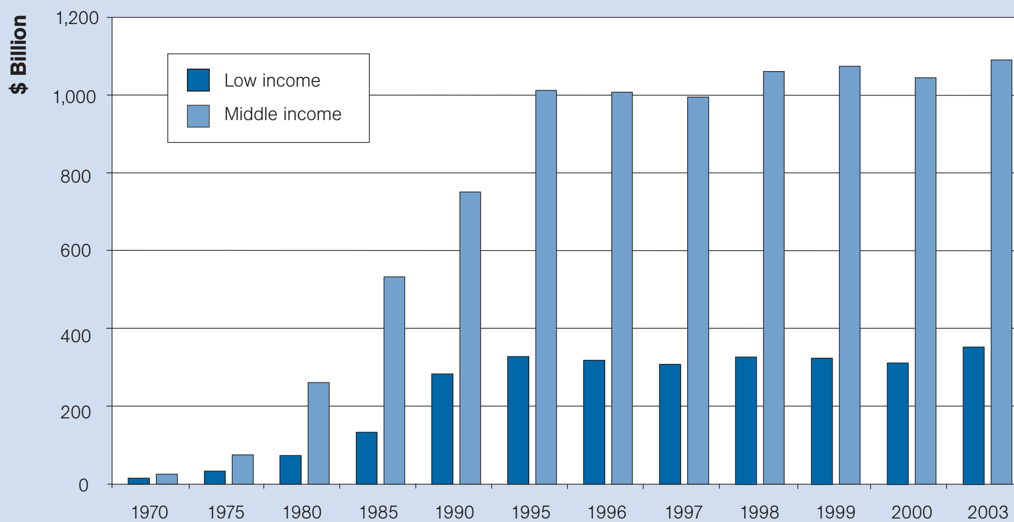
The massive rise in interest payments between 1977 and 1982 and between 1993 and 2000 shown in Figures 3 and 4 is striking. Even with debt cancellation, interest payments hardly fell except in 2001 and 2002, although there was a steady, if less spectacular, fall between 1988 and 1993. Figure 3 also illustrates

Figure 1: Nominal debt stocks all middle and low income countries ($ billion)



Source: GDF

Figure 2: Low- and middle-income PPG debt stocks



Source: GDF

that from 1983 to 1989 and especially from 1998 to 2003, the net flow of resources was from the South to the North, even after debt cancellation. In 2000 and 2001, the net capital flow was negative, in other words there was no net increase in the principal of debt outstanding and all new debt was effectively paying off old loans. **The gap between the net capital flow line and the gross lending line shows the extent of defensive lending.** This gap has been widening throughout the period under review, being more than 50 per cent of gross lending since 1993 and was almost 100 per cent between 1999 and 2002. Without grants[15], which include any debt cancellation, the overall cumulative net flow would have been negative since 2001, amounting to a massive $174 billion by the end of 2004. That is a flow from the poor to the rich equivalent to $35 from each man, woman and child living in the South over three years. Even taking grants into account, the net flow from North to South over the 34 years since 1970 amount to a paltry $92 per person living in the South, i.e. less than $3 a year, just above a fifth of the average British child's **weekly** pocket money.[16] The picture is not one of any generosity on the part of the North.

Debt relief

The threat of defaults forced some action towards debt relief, but such relief has, however, always been too little and too late. This has partly been because the creditor countries have wanted to retain a degree of power over the debtors (for a brief review of earlier approaches to debt relief, see Annex 7). Despite these efforts, debt stocks have remained high and net resource flows have been insufficient to enable a serious reduction in world poverty. The latest round of debt relief, called the Heavily Indebted Poor Countries (HIPC) initiative, has concentrated on the poorest and most indebted countries. This was enhanced by the G8 in 2005 at Gleneagles, with the Multilateral Debt Relief Initiative (MDRI).

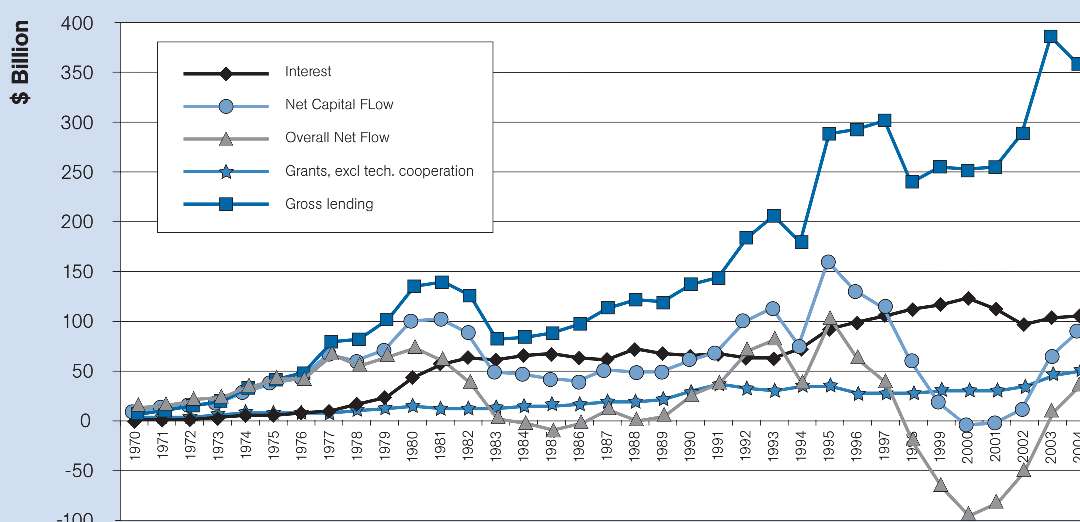
The HIPC initiative

Despite the developments in the field of bilateral debt described in Annex 7, it became clear in the 1990s that unless something further was done, many poor developing countries would be compelled to default on their debt payments, which remained unpayable. In 1996 the World Bank set up the HIPC initiative – the first scheme to include poverty relief as part of its mandate and have a transparent (if inadequate) definition of sustainability.[17] It was also the first scheme under which the World Bank and some other multilateral creditors agreed to have their loans included in the process, and that aimed to look at all public debt, coordinating the Paris and London Clubs[18] with the multilateral creditors. The initiative was subsequently 'enhanced' in 1999, largely as a result of public pressure led by the Jubilee 2000 campaign. Ten years after the HIPC initiative began, however, only 19[19] countries have completed their requirements and received the debt relief it promised.

The HIPC initiative has been marred by the numerous conditions attached to debt relief – many of which have little to do with passing the benefits of relief on to poor people

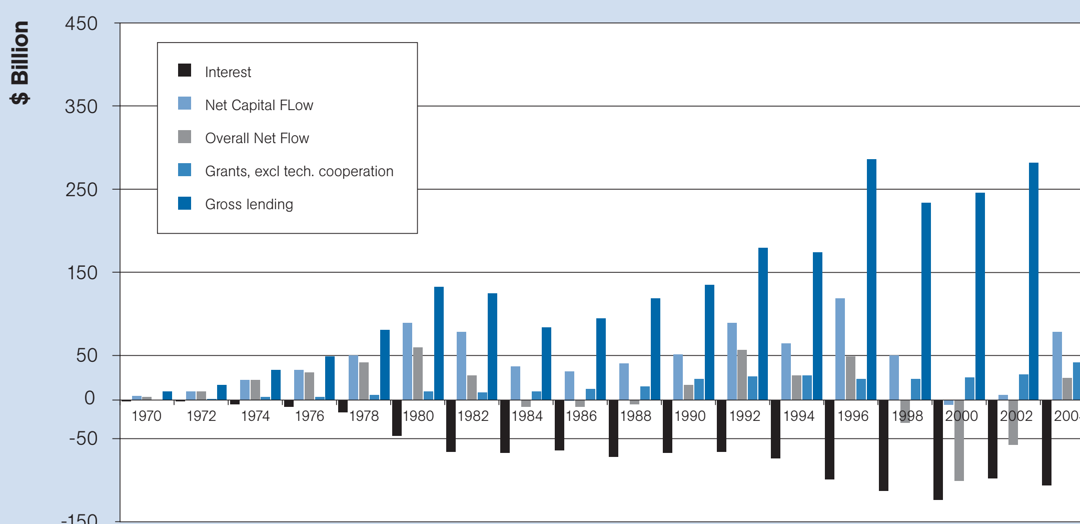
The scheme is confined to countries eligible for IDA-only borrowing terms from the World Bank (with per capita income below $785) that also have a high debt to

Figure 3: Gross and net financial flows, all developing countries



Source: GDF

Figure 4: Net and gross financial flows, all developing countries, 1970 to 2004 (even years)



Source: GDF

export ratio[20], or a high debt to government revenue ratio. It thus leaves out middle-income countries, which are often heavily indebted and have large numbers of very poor people; normally ignores the level of government revenue; and always ignores the other demands on that revenue.

At its launch, the policy was billed as offering a means to achieve a ‘robust exit’ from the burden of unsustainable debts. This has not proved to be the case. The recent review of HIPC by the World Bank’s own Independent Evaluation Group[21] concluded that the debt ratios of all post-HIPC countries had worsened since relief had been granted and that eight of the countries already had debts that were above the levels that warranted relief under the HIPC criteria.

The HIPC initiative has also been marred by the insistence of creditors on numerous conditions before debt relief is granted, many of which have little to do with passing the benefits of debt relief on to poor people (which is the ostensible focus of the programme) such as trade liberalisation, privatisation and tax reform.[22] It also requires a country to follow guidelines satisfactorily (as judged by the IMF) for nearly three years (often more if difficulties are encountered) to move from ‘decision point’ to ‘completion point’[23]. This delay in granting the full extent of debt relief required according to the initiative’s own criteria means extra years during which these countries have to service unsustainable debts. Even with the HIPC process, which based the level of debt relief on forecasts of export revenue growth[24], the optimism

of the IMF's own forecasters (and fresh borrowing) means that countries can reach completion point and have debts above the level considered sustainable under the IMF's own criteria. This is despite debt cancellation and the countries concerned having faithfully followed an IMF programme over a number of years.[25]

The MDRI recognises that the debt sustainability thresholds of HIPC are insufficient but fails to provide a substitute

The G8 approach or MDRI

Perhaps realising at last that the HIPC process was not going to solve the debt problem, the G7 met in June 2005, and proposed what was, in effect, another enhancement of HIPC. This was confirmed at the meeting at Gleneagles by the G8 in August and became known as the G8 deal, more formally as the MDRI. It applies only to those countries which complete the HIPC process[26], and allows for 100 per cent cancellation of debts owed to three multilateral institutions: IMF, IDA and the African Development Fund (ADF)[27]. It therefore suffers from all the drawbacks of HIPC, in terms of the conditionality attached and the delay in obtaining debt cancellation and in terms of being confined to a small number of countries. Though billed as 100 per cent cancellation, it ignores bilateral and commercial debts (though some members of the G7, at least, are extending it to bilateral debts they are owed) and multilateral debts to other IFIs, notably the Inter-American and Asian Development Banks. Also excluded are debts incurred after a cut-off point (which varies between the institutions). For those countries that have completed HIPC, G8 extra relief was implemented for IMF debts in January 2006[28] and is expected to be applied to IDA and ADF [29] debt in July 2006.

Commentary on these approaches

HIPC only applies to countries that are sufficiently poor and sufficiently indebted. It is a long drawn out process. A string of conditions have to be met before countries reach decision point and three years of successful implementation of reforms are normally required before the country reaches completion point, when the debts are actually cancelled. The appropriateness of this conditionality (especially those conditions that relate to privatisation and trade liberalisation) is vehemently questioned by many. The process is also slow, when urgent action is needed.

The MDRI recognises that the debt sustainability thresholds of HIPC are insufficient but fails to provide a substitute. It arbitrarily cancels all the remaining debt of HIPC completion countries to three international financing institutions (IMF, IDA, and ADF). It thereby undermines the justification for confining debt relief to the current list of countries eligible for HIPC by acknowledging that further debt relief is required beyond that granted by HIPC. The corollary of this is that countries which have lower debt to export ratios than the HIPCs (and were therefore excluded from the process) also need debt relief. In addition it suggests that the Latin American HIPCs should get their Inter-American Development Bank debts cancelled. Thus the eligibility criteria need to be re-examined. This has not been done, and while British Chancellor Gordon Brown has called for debt relief for all the IDA countries, which implies an income criterion, this has not been spelled out; nor has his call met with widespread acceptance among other countries of the North.

In view of the emphasis on the MDGs, it is striking that these official approaches to debt relief have focussed exclusively on revenues, ignoring the question of the impact on human well-being and economic development. The main parameter is the availability of foreign exchange, i.e. the ratio of the net present value (NPV) of a country's debt to its exports. This totally ignores the social and human cost of repaying the debts.

The rest of this research paper focuses on developing a human rights dimension to the question of sustainability. This would be applied to all countries which meet objective criteria of need. There is no question that servicing these debts has a very high price in terms of human suffering and that substantial cancellation of debt is needed as soon as possible to stop what amounts to a violation of human rights. At present, resources that should be going to meet basic human needs such as education, basic health services and clean water have been diverted to pay interest on debts, many of which have brought little or no benefit to the people.

The human rights approach

“no country genuinely committed to poverty reduction, good governance and economic reform will be denied the chance to achieve the Millennium Goals through lack of finance”.

G8 statement, 2002, Kananaskis, Canada

The rights and basic well-being of people have to come before the rights of creditors. Human rights should therefore be used as a basis for assessing debt sustainability and for the cancellation of all unsustainable debt. At the core of the human rights approach lies the Universal Declaration of Human Rights, adopted by the United Nations (and signed by all the OECD countries) more than 50 years ago. Three of these rights are particularly important:

- “Everyone has the right to a standard of living adequate for the health and well being of himself and his family, including food, clothing, housing and medical care and necessary social services.” (Article 25)

- “Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory.” (Article 26)

- “Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.” (Article 28)

These rights have been given more substance by a number of international conventions and treaties, notably the Charter of the United Nations[30], the International Covenant on Economic, Social and Cultural Rights (1966), the UN Convention on the Rights of the Child (1989), the WHO Constitution (1948) and the WHO Right to Health (2002). It is possible to argue that national governments have a responsibility to provide these rights to their people *to the extent of resources available.* We would argue that the wealthier citizens of the world (through their governments and the international financial institutions they have set up) have at least a moral responsibility to make sufficient resources available in those countries where they are lacking. Indeed at their meeting at Kananaskis, Canada, in 2002, the G8 declared: “no country genuinely committed to poverty reduction, good governance and economic reform will be denied the chance to achieve the Millennium Goals through lack of finance”.

Although the MDGs aim only to halve the number of people living in severe poverty, they nevertheless include an endorsement of the goals of free universal primary education and minimum health services. By endorsing the MDGs, the donor community is reiterating the validity of these rights.

Director of the Overseas Development Institute, Simon Maxwell,[31] notes that one aspect of a rights-based approach to development is that “because rights are universal, the wider international community has at least a moral duty to support rights, including financially, in partnership with states; this moral obligation may extend to non-state actors, particularly international financial institutions, Trans National Companies, and Non Governmental Organisations”.

This research paper advocates using human rights as the basis for assessing debt sustainability and for the cancellation of all unsustainable debt. A report prepared for CAFOD[32] in 1998 and Hanlon (2000)[33] written for Jubilee 2000 paved the way towards this approach. Other papers arguing for the concept include Eurodad’s *Putting Sustainable Development First* (July 2002) and CIDSE’s *The New World Bank/IMF Debt Sustainability Framework - A Human Development Assessment* (April 2006). The CAFOD report argued against the narrow focus of the BWIs

The human development approach

Similar to the fiscal criterion used within the HIPC Initiative, the human development approach is concerned with assessing the *fiscally* sustainable level of debt. However, rather than arbitrarily setting "sustainable" ratios of debt to revenue qualified by even more arbitrary sub-criteria, the human development approach takes as its starting point the amount of revenue which a government can realistically be expected to raise *after* deductions of necessary funds for basic human needs have been made.

This methodology is termed the *feasible net revenue approach,* whereby it is assumed that all revenue potentially or actually raised by a government in a highly indebted poor country cannot reasonably be used to service debt. Nor can an arbitrary proportion of that revenue be allocated to debt servicing without first addressing human needs.

The approach focuses on the capacity of HIPC governments to raise revenue without increasing poverty or compromising future prospects for economic development. Measurements of what countries can afford in terms of debt-servicing are considered after minimum levels of government spending have been set aside to meet targets for the most basic level of human development.

Northover, Joyner and Woodward (1998) CAFOD

on export earnings as a measure of debt sustainability and for what they called a "human development" approach, and developed the concept of "feasible net revenue" (see below). The idea was illustrated with calculations relating to 10 countries. The Hanlon paper extended the coverage to 93 countries, and developed the concept of essential social spending, using United Nations Development Program (UNDP) figures. Furthermore Hanlon added an estimate by UNCTAD[34], based on work by Jeffrey Sachs, to say that 10 per cent of GDP should be spent on other essential services (public administration, police, defence, and infrastructure such as rural roads). This research paper updates their figures, develops the argument further and applies it to 136 countries.

Theoretical framework

We argue that it is a violation of human rights if governments are forced to cut expenditure required to meet basic human needs (the rights enshrined in the UN Charter and elsewhere, for basic education, health, water, shelter and food) in order to pay debt service. Nor should governments be required to tax those members of their populations who are already living below the poverty line. This follows from the argument set out in our earlier report *Chapter 9/11? The Jubilee Framework for International Insolvency* (**nef** 2002). This report advocates applying Chapter 9 of the US legal code (which is designed for insolvent local government organisations) to sovereign countries. Under Chapter 9 a debt work-out must be brokered which allows the institution to continue to provide its statutory obligations. We argue that governments have an obligation under the UN Charter to provide a minimal standard of living for their people. This obligation should come before any financial obligations to creditors. The North has a moral responsibility to support this.

It is as irresponsible for a creditor to lend to a country beyond its capacity to service the loan as it is for the government of that country to borrow beyond that capacity. Creditors should therefore bear some responsibility for the consequences of their lending, when the debt is unsustainable.

Assumptions

The following set of four assumptions underlies this approach:

1. That it is not reasonable to levy tax on income below the international absolute poverty line – we therefore adjust estimates of national income to take out income up to this level.
2. That an incidence of taxation of greater than 25 per cent on incomes *above* this level, i.e. adjusted gross national income (GNI), is not realistic or feasible[35] and will give rise to excessive distortions in the economy and thus hinder economic development. The maximum is set at this level because of the difficulties for tax administration in developing countries and especially the heavy dependence of least developed countries (LDCs) on indirect taxation (which is inherently regressive).

3. That debtor governments must be allowed to put aside the finance needed to meet their populations' basic human development needs before revenues are subject to debt service demands.

4. That only a limited amount of any remaining revenue should be allocated towards debt service, in order to leave resources for other essential government expenditure. Servicing demands above this level would be inconsistent with debtor governments' ability to meet their countries' development needs.

It is a violation of human rights if governments are forced to cut expenditure required to meet basic human needs

An ethical poverty line

In a ground-breaking article in *Third World Quarterly*[36], Peter Edward argues that the poverty lines used by the World Bank ($1 and $2 a day in purchasing power parity terms at 1985 prices) are arbitrary. If we are to argue from a moral point of view about the need for poverty reduction, we need to have a measure of poverty which has some moral grounding. While acknowledging that poverty is multidimensional, he argues that a reasonable proxy for well-being is life expectancy at birth. He then demonstrates that there is strong correlation between the latter and per capita income. There is also a distinct and striking kink in the line of best fit correlating the two which suggests that beyond a certain level of income there is very little increase in life expectancy. He argues that this point should be an ethical poverty line. Depending on the precise form of equation, this kink point (equivalent to about 70 years) varies between an income level of $2.7 and $3.9 per day. He concludes that $3 is a good figure on which to base further work.

Methodology

We have looked at the effects on our calculations of using a poverty line of both $2 and $3 a day (in PPP terms), the former being the higher figure commonly used by the World Bank, and the latter based on the ethical poverty line outlined above. For each country we first deducted from national income the actual income of those receiving less than the poverty line, and the equivalent of $2 (or $3) a day for the rest, to calculate taxable gross national income. This concept is illustrated in Figure 5. We then calculated maximum feasible government revenue (including grants that might be used for essential expenditure) and deducted minimum necessary social and other expenditure (for details see Annex 2) to derive net feasible government revenue. We looked at the effect of various proportions of this net feasible revenue (NFR) being made available for debt service on the level of sustainable debt. This was done by looking at the amount of debt in net present value terms[37] (see box) which could be serviced by the revenue made available. By comparing this with the actual net present value of public and publicly guaranteed debt we can calculate how much debt cancellation is required to reach a sustainable level.

Review of the methodology

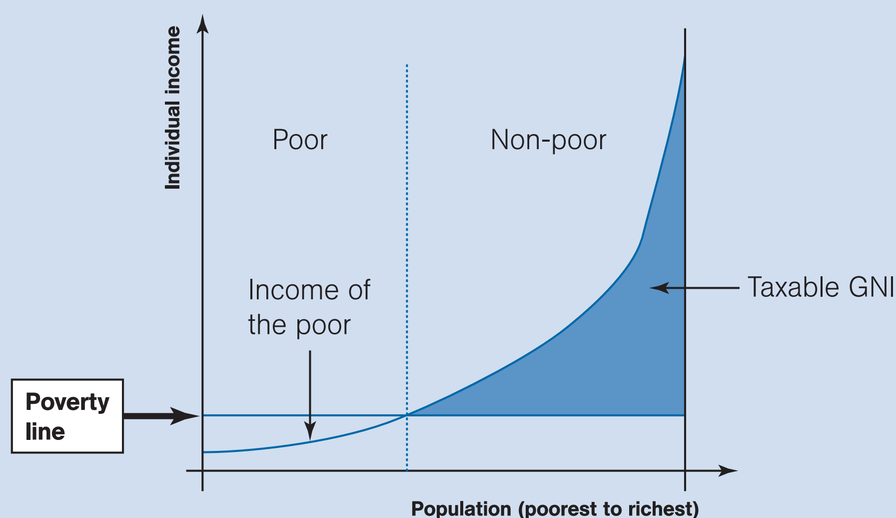
How our methodology develops earlier approaches

Following Peter Edward, we base our central calculation on an ethically based poverty level, which we have taken as $3 a day. However, we have also carried out our calculations based on the $2 poverty line, whereas the CAFOD report took the $1 level. According to the calculations cited in Edward's paper the latter

Why use Net Present Values?

Each loan to a country can have different terms: a different payback and grace period (the length of time between disbursement of the loan and the start of capital repayment) and interest rate. The level of debt that is sustainable by a country depends on how much is payable each year, which in turn depends on these terms. The nominal stock of debt is therefore not a good indicator of the debt burden. For example $100 million of IDA debt with ¾ per cent interest and 40 year repayment requires only $750,000 of interest and $2.5 million of capital repayment in a year, whereas a commercial loan might bear interest of 8 per cent and have a five year repayment period. (In this study we assume that new debt on similar terms is available when capital is repaid, so we concentrate on the cost of interest payments only.) To add together (and to assess the burden) of loans with differing terms, analysts look at the stream of payments associated with each loan and discount them to present values using a discount rate which is roughly the cost of commercial capital. Thus, for commercial loans, nominal and discounted values will normally be very close to each other, while the discounted value of a highly concessional loan will be considerably lower than the nominal value.

Figure 5: The taxable GNI



corresponds to an average life expectancy at birth of only about 40 years. The stark relationship between per capita income and life expectancy is illustrated in Figure 6. This graph is quoted by Edward from a 2003 paper by Angus Deaton[38] and shows how life expectancy correlates with per capita income.[39] Edward quotes two World Bank economists (Chen and Ravallion) as regarding $1 as "frugal" and in accordance with concepts of poverty only in the very poorest countries. Wagstaff [40] concludes: "In a typical developing country, somewhere between one in six and one in twelve children in households at the $1-a-day line die before their fifth birthday, and between one-third and one-half of the survivors have their growth stunted. In Niger, the under-five mortality rate at the $1-a-day line is more than one in three". We therefore consider $1 a day far too low to be compatible with human rights to well-being and health.

We have refined the CAFOD work to include education costs that depend on the number of children of primary school age in each country, instead of a broad average, and added provision of a minimal pension and other social costs. This leaves out all provision for post-primary education and all but the most basic healthcare.

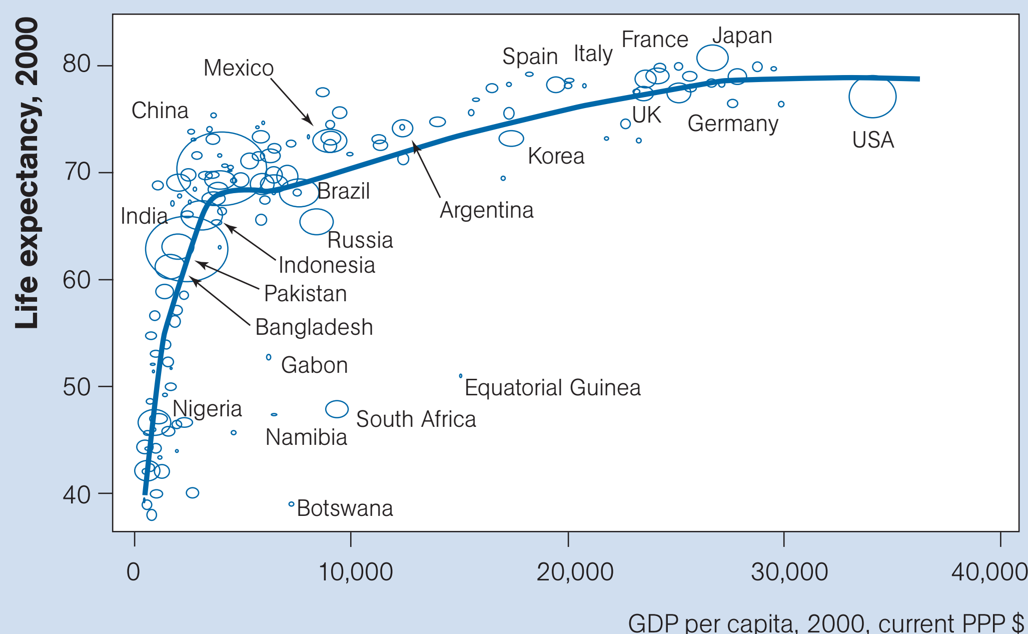
We have followed Hanlon in adding grant aid to the country concerned. While this is not to be spent directly on debt servicing, to the extent that it pays for essential services, it releases government revenue to do so. OECD DAC figures show that half of all development assistance grants excluding technical assistance are taken up by emergency funds, food aid, administration and other costs which are not available for ordinary government expenditure. We have therefore halved the *Global Development Finance* (GDF) figures for grants excluding technical assistance for each country and added these to the net feasible government revenue. This implicitly assumes that the grants included are all used for the type of essential spending on services that we are trying to protect from being pre-empted by debt servicing. This is unlikely to be the case, because in practice much grant funding is spent on capital investment. It therefore represents a very conservative scenario.

We have also followed Hanlon in adding to essential expenditure some non-social spending. UNCTAD [41] uses work by Jeffrey Sachs to argue that, in addition to health and education, a government should be spending 2 per cent of GDP on public administration, 3 per cent of GDP on expenses for police and defence, and 5 per cent on infrastructure such as rural roads which are "much harder to finance through the market". UNCTAD and Sachs argue that this is also essential spending which must be made before debt service is paid.

We have assumed that once the truly essential expenditure (as described above) has been catered for, between 20 and 40 per cent of residual net

We need a measure of poverty that has some moral grounding - $3 a day is a good figure on which to base further work

Figure 6. Relationship between per capita income and average life expectancy



The size of each circle relates to the population size of the relevant country

Source: Deaton (2003) quoted in Edward (2006)
Note that the main instances of countries which fall well below the trend are all ones suffering the most from the scourge of AIDS.)

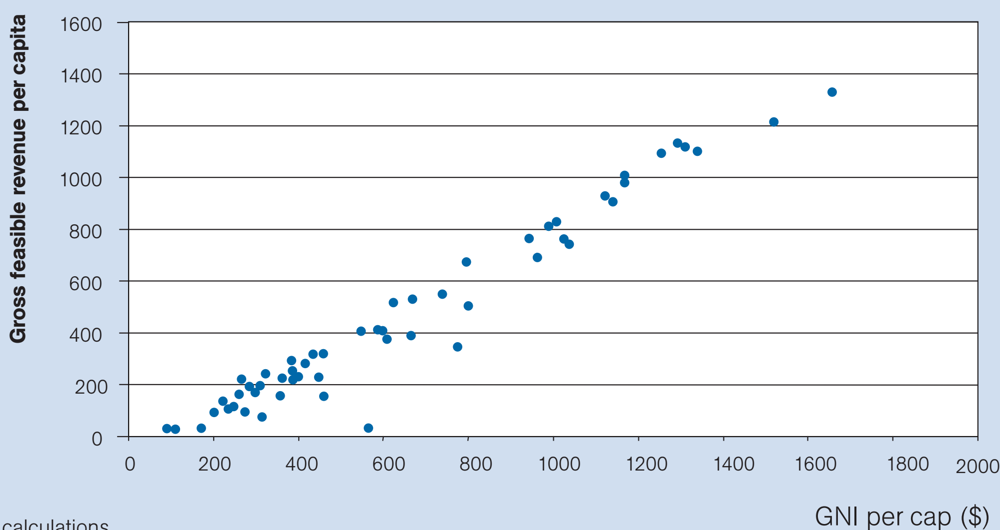
feasible revenue should be available for debt servicing. The latter is a fairly high proportion, considering that no allowance has been made for non-primary education or training and no allowance is made at all for investment other than Sachs' 5 per cent of GDP (which is only meant to cover infrastructure that is hard to finance through the private sector). In the case of very poor countries, 5 per cent of GDP may well be far too low. Note that as we have taken grants into account, grant aid for investment is already included. There is therefore no explicit allowance for investment in – for example – new schools or clinics, urban or rural water supplies, social housing and so on.

The comparison between the three studies is summarised in Table 1.

Table 1. Comparison between nef and earlier approaches

Element	*nef*	*Northover et al.*	*Hanlon*
Poverty line	$2 and $3 (ethical poverty line)	$1	$1
Education	Based on number of children of primary age, class size, teacher salary	Based on average per person	Mean of three estimates to meet MDG
Health	WHO estimate for achieving MDGs	Based on WB estimate	Mean of three estimates to meet MDG
Old age pension	Ethical poverty line	Not included	Not included
Other essential spending	UNCTAD estimate	Not included	UNCTAD estimate
Grant aid	Taken into account	Not included	Taken into account
Net feasible revenue	25% of adjusted GNI	25% of adjusted GNI	25% of adjusted GNI
Proportion of net feasible revenue available	20-40%	20%	100%

Figure 7: Gross feasible government revenue per capita ($)



Source: **nef** calculations

Once a country has borrowed up to its sustainable debt level or, in most cases, had its debt reduced to this level, under the criteria expounded in this research paper any further public investment can only be funded by its own revenue and by grant aid. This is the corollary of arguing for debt relief based on this approach.

Data availability

We attempted to carry out the study using 2004 data. Unfortunately this was not always available, so most recent data were used where necessary.

PovcalNet data are not available at all in recent years for 50 countries, 40 of which are listed in GDF as having debt (amounting to $118 billion in present value terms in 2003). Clearly it is not desirable to leave such a significant number of countries out. To overcome this problem, we plotted our results for the relationship between per capita income (GNI) and taxable national income per person for 93 countries with full data.[42] Fortunately the results are clear; and are illustrated in Figure 7.

Using a line of best fit we were able to estimate feasible revenue on the basis of this relationship and hence sustainable debt for these countries in accordance with their per capita GNI. We can conclude that while it is desirable to have *PovcalNet* data, it is not necessary to make reasonable estimates about debt relief based on the human rights approach.

The World Bank's GDF does not record the present value of PPG debt, only that of all debt and the nominal value of PPG debt. We were, however, able to obtain World Bank estimates for the present value of PPG debt from their research department, but the latest data are for 2003. Curiously, but perhaps because of debt write-offs and repayments, the nominal value of PPG debt in 2004 is less than the present value of PPG debt in 2003, overall. We have not therefore attempted to calculate the nominal value of debt to be written off.

Just as this report was being finalised, the World Bank produced figures for the effect of the MDRI on the debt of those countries which had reached completion point by the end of 2005, based on 2003 levels of debt. These new figures have been taken into account, except in the case of Mauritania, which has been excluded from MDRI debt relief for the time being (see footnote 29).

Results

Our results show that between 31 and 43 per cent of all outstanding developing country debt needs to be cancelled if poverty is to be reduced and the Millennium Goals met. The level of debt cancellation needed is around ten times that currently proposed under the HIPC initiative.

If the analysis is based on the ethical poverty line of $3 a day, between $424 and $589 billion of debt (in NPV terms) should be cancelled; this amounts to 31 to 43 per cent of all outstanding Third World debt, affecting 93 to 107 countries. The latter figure is ten times the total debt relief envisaged under HIPC. This massive amount demonstrates the extent to which unsustainable debt is driving people in the South to an early death. However, it is not such a large amount compared with the shortfall in aid below the 0.7 per cent target of rich countries' GDP, which was $120 billion in 2005 alone. If the North had met the target each year since 2000 it could have wiped out all this debt.

Even if the conventional and arbitrary poverty level of $2 a day is used as the basis for the calculations (and depending on the proportion of net feasible government revenue (NFR) considered reasonable to devote to debt service), far greater debt cancellation is required than is being considered under HIPC and the MDRI. At a minimum, if 40 per cent of NFR is devoted to debt service, 83 countries need at least some de bt cancellation, amounting to a net present value of $359 billion, or 26 per cent of outstanding debt and six times the total debt relief envisaged under HIPC. The summary of our results is set out in Table 2.

Table 2. Summary of results, human rights approach to debt cancellation

Assumptions	*no of countries needing 100%*	*no of countries less than 100%*	*extent of debt relief ($M NPV)*
$2/day and 40% of NFR	51	32	358,946
$2/day and 30% of NFR	51	41	424,052
$2/day and 20% of NFR	51	51	516,887
$3/day and 40% of NFR	54	39	423,843
$3/day and 30% of NFR	54	42	486,614
$3/day and 20% of NFR	54	53	589,136

NFR = net feasible revenue

We also looked at the regional distribution of the results (see Table 3). South Asia needs over 95 per cent and sub-Saharan Africa just under 75 per cent cancellation under all of our assumptions, while the Middle East and East Asia/Pacific need about a quarter of their debts cancelled under the least generous assumptions, rising to between 40 and 60 per cent on the basis of the ethical poverty line. The other two regions need relatively little debt cancellation on the basis of the larger proportion of revenue devoted to debt service, but Europe and Central Asia need 15 per cent and Latin America and Caribbean needs 27 per cent at the $3 level, if the maximum proportion of revenue allocated to debt service is 20 per cent. For a detailed list of the countries needing cancellation, see Annex 4.

Based on an ethical poverty line of $3 a day, between $424 and $589 billion of debt should be cancelled

All the countries needing debt cancellation cannot afford to service higher debt. The implications are that all their external financing needs should be being met by grants, because they cannot afford to service any more loans, and that they should be receiving higher grants than they do at present. This means that as well as the transfer needed for debt relief, which is a paper transaction[43], there is a moral obligation on the North to fund a large increase in the level of grant aid. The funds that will be released from servicing debt, if our contention is accepted, are needed to pay the recurrent costs for meeting basic needs. Investment in schools, hospitals and other infrastructure has not been included in our calculations. It is highly likely that many countries will need grant assistance to cover some of the running costs of extra facilities needed to meet the MDGs as well. The first task, however, must be to stop the drain of resources in the other direction to service these unrepayable loans.

Table 3. Summary of results by region

	NPV of PPG debt including IMF direct	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service		Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service		Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service	
Region	($M)	extent of debt relief required ($M)	relief as percent of debt	extent of debt relief required ($M)	relief as percent of debt	extent of debt relief required ($M)	relief as percent of debt
East Asia & Pacific	255,024	110,586	43%	100,866	40%	91,145	36%
Europe & Central Asia	296,674	43,225	15%	17,116	6%	11,772	4%
Latin America & Caribbean	419,187	113,621	27%	67,126	16%	36,735	9%
Middle East & North Africa	122,688	76,070	62%	57,244	47%	41,301	34%
South Asia	135,473	134,404	99%	133,869	99%	133,335	98%
sub-Saharan Africa	120,530	111,230	74%	110,393	73%	109,556	73%
Total	**1,349,574**	**589,136**	**43%**	**486,614**	**35%**	**423,843**	**31%**

	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service		Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service		Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service	
Region	extent of debt relief required ($M)	relief as percent of debt	extent of debt relief required ($M)	relief as percent of debt	extent of debt relief required ($M)	relief as percent of debt
East Asia & Pacific	97,052	38%	80,563	32%	64,075	25%
Europe & Central Asia	19,152	6%	12,283	4%	7,739	3%
Latin America & Caribbean	93,061	22%	48,688	12%	19,111	5%
Middle East & North Africa	63,578	52%	40,625	33%	28,161	23%
South Asia	133,507	99%	132,524	98%	131,547	97%
sub-Saharan Africa	110,538	73%	109,368	73%	108,312	72%
Total	**516,887**	**37%**	**424,052**	**31%**	**358,946**	**26%**

Commentary and conclusions

It is no surprise to find that all the HIPC countries in the analysis are shown in Table 3 to need extra cancellation[44], despite the debt relief granted to those HIPCs which have reached completion point.[45] In addition, there are, of course, a considerable number of extra candidates for debt relief. Between 83 and 107 countries are judged to require some debt cancellation in our analysis (and 10 countries could not be analysed for lack of debt data[46]).

The **present value** of all debt requiring cancellation is between $424 and $589 billion. This contrasts starkly with the G8 deal, under which the present discounted value (PDV) of debt to be written off is about $17 billion[47] for the 18 post-completion point countries, and the HIPC initiative as a whole, under which the PDV of debt which might be written off is $59 billion for 38 countries[48]. The nominal value is, of course, higher, as much of this debt is on concessional terms. This level of debt relief is supported without going into the thorny issue of odious debt and can be justified purely on human rights grounds and commitment to the Millennium Development Goals.

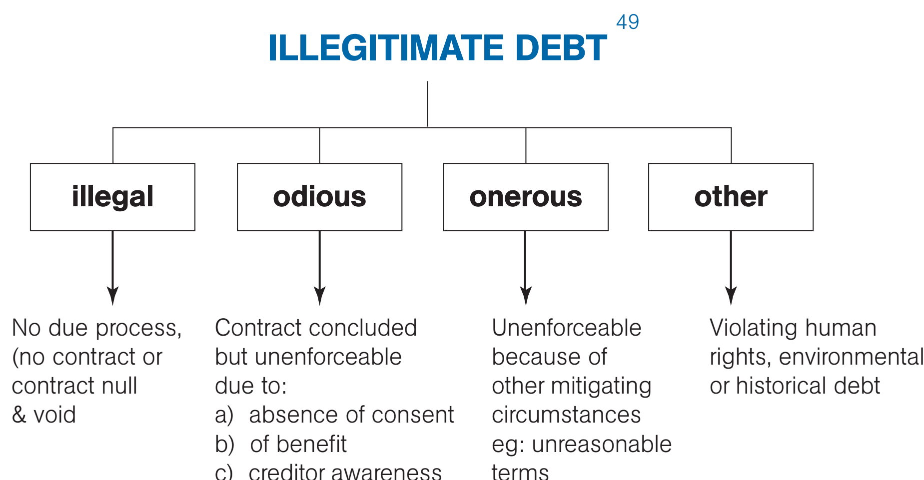
The concept described in this research paper is part of a multi-track approach to the cancellation of immoral debt – it can be argued that any debt servicing which infringes on human rights is immoral. (The second track is the question of odious debt, which we shall address in a separate research paper.) Of the 136 countries surveyed, between 51 and 54 needed complete cancellation of their debts and between 32 and 53 needed partial cancellation on human rights grounds.

The human development approach to debt relief allows for the basic needs of a country's population to be taken into account in an objective way when determining a country's ability to service its debt. Applying this methodology demonstrates that very substantial debt relief is urgently needed beyond those steps taken under the HIPC and MDRI approaches if very severe hardship is to be alleviated and a serious reduction in world poverty is to be achieved. As a corollary, a major increase in grant aid over and above the debt cancellation is required.

Of the 136 countries surveyed, between 51 and 54 needed complete cancellation of their debts and between 32 and 53 needed partial cancellation on human rights grounds.

Annex 1. The concept of illegitimate debt

The concept of **illegitimate** debt is the subject of much debate and is often left undefined and muddled. It is helpful to be systematic about the terms used and the variety of reasons why debt might be considered illegitimate and therefore due for cancellation. These are illustrated by the following diagram.



First there is **illegal debt**. This is where legal procedures have not been followed, for example the loan requires authorisation by parliament or the signatory was not authorised to sign. Creditors have an obligation to make sure that such procedures are followed and should take some responsibility if they were not. Failure to follow legal procedures renders the contract null and void.

Then there is the concept of **odious** debt. The term was coined by Alexander Sack in 1927[50], but the concept has effectively been invoked at least since the capture of Cuba by the United States from Spain in 1898, when the latter tried to get the USA to honour debts owed by its colony. Similarly, in 1900 Britain refused to pay the debts of the Boer republics it had conquered on the grounds that they (the debts) had been taken out to fight the war.[51] The most recent example is that of Iraq, where the US Treasury Secretary, John Snow argued that "certainly the people of Iraq shouldn't be saddled with those debts incurred through the regime of the dictator who is now gone". Generally, the concept can be applied where there was an absence of consent on the part of the people, there was no significant benefit to them[52] and that the creditor was aware of the situation.

Third there is the concept of **onerous** debt. In UK, under the Consumer Credit Act 1974 (Section 138), debts are recognised as being unenforceable if their terms are unreasonable. This could be applicable to some sovereign debt, especially where the Act refers to circumstances when the borrower had no choice in their financial circumstances but to accept the terms of the loan.[53]

Environmental debt In a recent book[54] Andrew Simms of **nef** argues that all citizens of the world have an equal right to the global commons of the world's resources of air and sea. Those consuming more than their share, particularly of the capacity of the atmosphere to absorb carbon dioxide without irreversible damage to the environment, owe a debt to the rest of the world. This is a debt owed by the rich, overwhelmingly living in financial creditor countries, to the poor who largely inhabit the so-called debtor countries. This massive unacknowledged debt puts the financial debts of the South into a very different perspective.

Historical debt Many argue that the blatant exploitation of the colonial era, when vast resources of the South were taken by force of arms or grossly unfair

and exploitative trading, leave the North with a large unacknowledged debt against which the present financial debts of the South are insignificant.

Unsustainable debt Where a debt may be legal and used for the benefit of the people and in isolation its terms are not overly onerous, it may nevertheless be unpayable because of the overall level of indebtedness of the country. The concept of debt sustainability is at present defined by the creditors very narrowly and has focussed almost entirely on a country's ability to pay in terms of its export earnings. The main criterion is therefore an arbitrary ratio of exports to debt (of 150 per cent), regardless of even the level of re-exports, let alone the other demands on government revenue. National governments, however, have an obligation towards their citizens to provide for (or at least not to frustrate) the meeting of their basic needs for food, clean water, shelter, health and education. The freedom to pursue the meeting of these needs is a fundamental **human right**. If a government can only meet its debt servicing by taxing its people so that they cannot pay for enough food or shelter and by failing to provide basic health and education services, this violates these human rights. It is therefore essential that any concept of debt sustainability includes an assessment of a) what level of taxation is reasonable and b) what minimum expenditure is required to enable government to meet its obligations to its citizens. Only after this obligation is met can funds be set aside for debt servicing. Debts incompatible with human rights should be cancelled.

Annex 2. Detailed methodology

For each country, data are taken from *PovcalNet*[55, 56], the World Bank's database for calculating the proportion of people with incomes under a certain level, from *World Development Indicators*, from *Global Development Finance* (both published by the World Bank) and from UNESCO. Data primarily refer to 2004, the latest year for which fairly comprehensive information is available[57], and therefore do not take into account subsequent HIPC relief, the Nigerian Paris Club settlement and the 2005 G8 deal. These will need to be taken into account in later work.

Having 'cleaned' the data to take out those countries for which data were too incomplete, we were left with 99 countries. For each, we:

- converted the $2 or $3 to purchasing power parity (which on average reduces even this small sum by two-thirds)
- calculated the national income available for taxation (adjusted GNI) by deducting actual income for those earning under $2 or $3 a day, and $2 and $3 a day for the rest
- calculated the maximum feasible government revenue to be derived from taxing this adjusted GNI at 25 per cent
- added that portion of grants which might be available for providing the essential services (thus freeing up own resources for debt service)[58]
- calculated the minimum government expenditure on health, education and other social services, including a minimal pension set at the ethical poverty line
- added a sum amounting to 10 per cent of GDP for other essential expenditure (as suggested in Hanlon 2000)
- derived the maximum available for servicing debt by deducting the minimum expenditure from the maximum feasible government revenue including grants; we looked at the effect of allocating 40 per cent, 30 per cent and 20 per cent of residual revenue to debt service
- by assuming a commercial interest rate of 8 per cent[59], and applying this to the revenue available, derived the NPV of **sustainable** debt of whatever origin. In other words, the net present value of sustainable debt is 12.5 times the revenue available for servicing the debt, since all capital repayments are assumed to be covered by new borrowing. Most actual debt of low-income countries is concessional and so the *nominal* level of debt will be considerably higher.
- compared this with the actual NPV of public and publicly guaranteed debt to see the extent of debt cancellation required to bring the level of debt down to sustainable levels.

Annex 3. Detailed inputs to calculations

From *PovcalNet*

H: the proportion of people in each country living on less than $2 and $3 per day (purchasing power parity)

Poverty Gap: the extent to which their average income fall below $2 and $3 per day

From *Global Development Finance*

GNI: Gross National Income

Total External Debt (nominal)

Public and publicly guaranteed debt (nominal)

Private (non-guaranteed) debt (nominal)

From *World Development Indicators*

Population

Purchasing Power Parity ratio: ratio of domestic purchasing power at the official exchange rate to equivalent world average

From World Bank research data (direct communication)

The NPV of PPG

From UNESCO statistics

Population of primary school age

Input assumptions

Class size: 40

Teacher wage: $6000 per year at PPP

Teaching/learning materials: $1 per person, per year

Other education costs: $2 per person, per year

Minimum health expenditure: $43 per person, per year (WHO estimate of minimum expenditure required)

Other social provision: $15 per person, per year

Old age pension: $3 a day at PPP

Interest/discount rate: 8 per cent

Annex 4. Detailed results

4.1 Cancellation needed on the basis of an ethical poverty level of $3 a day

	NPV of PPG debt including IMF direct	*Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service*		*Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service*		*Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service*	
Region	***($M)***	***extent of debt relief required ($M)***	***relief as percent of debt***	***extent of debt relief required ($M)***	***relief as percent of debt***	***extent of debt relief required ($M)***	***relief as percent of debt***
East Asia & Pacific	**255,024**	**110,586**	**43%**	**100,866**	**40%**	**91,145**	**36%**
Cambodia	2,505	2,505	100%	2,505	100%	2,505	100%
Lao PDR	1,577	1,577	100%	1,577	100%	1,577	100%
Mongolia	756	756	100%	756	100%	756	100%
Myanmar	5,647	5,647	100%	5,647	100%	5,647	100%
Vietnam	11,815	11,815	100%	11,815	100%	11,815	100%
Solomon Islands	155	140	90%	133	85%	125	81%
Papua New Guinea	1,343	1,156	86%	1,062	79%	968	72%
Indonesia	67,308	58,295	87%	53,788	80%	49,282	73%
Philippines	38,840	28,643	74%	23,545	61%	18,447	47%
Tonga	81	52	64%	37	46%	23	29%
China	79,039	0	0%	0	0%	0	0%
Fiji	120	0	0%	0	0%	0	0%
Thailand	19,187	0	0%	0	0%	0	0%
Malaysia	26,473	0	0%	0	0%	0	0%
Samoa	177	0	0%	0	0%	0	0%
Europe & Central Asia	**296,674**	**43,225**	**15%**	**17,116**	**6%**	**11,772**	**4%**
Georgia	1,172	1,172	100%	1,172	100%	1,172	100%
Kyrgyz Republic	1,011	1,011	100%	1,011	100%	1,011	100%
Moldova	734	734	100%	734	100%	734	100%
Tajikistan	739	739	100%	739	100%	739	100%
Uzbekistan	3,965	3,965	100%	3,965	100%	3,965	100%
Serbia	9,508	5,491	58%	3,483	37%	1,474	16%
Bulgaria	8,572	4,967	58%	3,164	37%	1,361	16%
Bosnia	2,644	1,463	55%	872	33%	281	11%
Armenia	644	447	69%	349	54%	250	39%
Azerbaijan	830	807	97%	796	96%	784	94%
Ukraine	8,196	3,287	40%	832	10%	0	0%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service: relief as percent of debt	Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service: relief as percent of debt	Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service: relief as percent of debt
Macedonia, FYR	1,104	264	24%	0	0%	0	0%
Turkey	66,037	11,811	18%	0	0%	0	0%
Albania	756	0	0%	0	0%	0	0%
Belarus	638	0	0%	0	0%	0	0%
Kazakhstan	3,485	0	0%	0	0%	0	0%
Romania	11,644	0	0%	0	0%	0	0%
Russian Federation	105,920	5,572	5%	0	0%	0	0%
Turkmenistan	762	223	29%	0	0%	0	0%
Croatia	8,525	1,273	15%	0	0%	0	0%
Latvia	1,132	0	0%	0	0%	0	0%
Lithuania	2,786	0	0%	0	0%	0	0%
Czech Republic	7,774	0	0%	0	0%	0	0%
Estonia	590	0	0%	0	0%	0	0%
Hungary	14,457	0	0%	0	0%	0	0%
Poland	28,577	0	0%	0	0%	0	0%
Slovak Republic	4,472	0	0%	0	0%	0	0%
Slovenia	0	0	0%	0	0%	0	0%
Latin America & Caribbean	**419,187**	**113,621**	**27%**	**67,126**	**16%**	**36,735**	**9%**
Haiti	1,186	1,186	100%	1,186	100%	1,186	100%
Guyana	449	436	97%	429	96%	422	94%
Honduras	1,705	1,705	100%	1,705	100%	1,705	100%
Bolivia	1,989	1,989	100%	1,989	100%	1,989	100%
Nicaragua	1,189	376	32%	0	0%	0	0%
Jamaica	5,135	4,522	88%	4,215	82%	3,909	76%
Belize	925	717	77%	613	66%	509	55%
Grenada	347	263	76%	221	64%	179	52%
Ecuador	12,261	9,586	78%	8,249	67%	6,912	56%
St Vincent & Grenada	223	144	65%	105	47%	65	29%
Paraguay	2,082	1,585	76%	1,337	64%	1,088	52%
Panama	7,415	4,517	61%	3,069	41%	1,620	22%
Uruguay	7,419	4,429	60%	2,934	40%	1,439	19%
Peru	22,349	11,623	52%	6,260	28%	897	4%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
El Salvador	5,063	2,547	50%	1,288	25%	30	1%
Colombia	24,324	8,723	36%	923	4%	0	0%
St. Lucia	226	56	25%	0	0%	0	0%
Venezuela, RB	27,644	7,423	27%	0	0%	0	0%
Dominican Rep	5,815	904	16%	0	0%	0	0%
Brazil	100,480	0	0%	0	0%	0	0%
Guatemala	3,660	446	12%	0	0%	0	0%
Argentina	85,534	50,060	59%	32,323	38%	14,586	17%
Dominica	213	138	65%	100	47%	62	29%
St Kitts & Nevis	314	226	72%	182	58%	138	44%
Barbados	703	21	3%	0	0%	0	0%
Costa Rica	3,406	0	0%	0	0%	0	0%
Chile	6,718	0	0%	0	0%	0	0%
Mexico	88,455	0	0%	0	0%	0	0%
Trinidad and Tobago	1,957	0	0%	0	0%	0	0%
Middle East & North Africa	**122,688**	**76,070**	**62%**	**57,244**	**47%**	**41,301**	**34%**
Yemen, Rep.	3,119	3,119	100%	3,119	100%	3,119	100%
Syria	15,742	15,742	100%	15,742	100%	15,742	100%
Djibouti	394	303	77%	257	65%	212	54%
Morocco	14,243	11,595	81%	10,271	72%	8,948	63%
Tunisia	13,035	7,987	61%	5,462	42%	2,938	23%
Jordan	6,507	3,635	56%	2,200	34%	764	12%
Egypt, Arab Rep.	22,894	12,061	53%	6,645	29%	1,228	5%
Algeria	20,329	8,723	43%	2,919	14%	0	0%
Iran, Islamic Rep.	7,756	0	0%	0	0%	0	0%
Lebanon	17,460	12,905	74%	10,627	61%	8,349	48%
Oman	1,209	0	0%	0	0%	0	0%
South Asia	**135,473**	**134,404**	**99%**	**133,869**	**99%**	**133,335**	**98%**
Bangladesh	11,824	11,824	100%	11,824	100%	11,824	100%
Nepal	2,015	2,015	100%	2,015	100%	2,015	100%
Pakistan	24,082	24,082	100%	24,082	100%	24,082	100%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
India	88,927	88,927	100%	88,927	100%	88,927	100%
Bhutan	593	542	91%	516	87%	490	83%
Sri Lanka	7,726	6,848	89%	6,409	83%	5,970	77%
Maldives	304	165	54%	95	31%	26	8%
Sub-Saharan Africa	**120,530**	**111,230**	**74%**	**110,393**	**73%**	**109,556**	**73%**
Benin	228	228	100%	228	100%	228	100%
Burkina Faso	253	253	100%	253	100%	253	100%
Cameroon	7,085	7,085	100%	7,085	100%	7,085	100%
Central African Republic	699	699	100%	699	100%	699	100%
Chad	1,582	1,582	100%	1,582	100%	1,582	100%
Comoros	275	275	100%	275	100%	275	100%
Congo	5,051	5,051	100%	5,051	100%	5,051	100%
Congo Democratic Rep	10,532	10,532	100%	10,532	100%	10,532	100%
Cote d'Ivoire	7,141	7,141	100%	7,141	100%	7,141	100%
Eritrea	666	666	100%	666	100%	666	100%
Ethiopia	507	507	100%	507	100%	507	100%
Gambia, The	346	346	100%	346	100%	346	100%
Ghana	560	560	100%	560	100%	560	100%
Kenya	4,194	4,194	100%	4,194	100%	4,194	100%
Liberia	1,168	1,168	100%	1,168	100%	1,168	100%
Madagascar	410	410	100%	410	100%	410	100%
Malawi	1,804	1,804	100%	1,804	100%	1,804	100%
Mali	609	609	100%	609	100%	609	100%
Mauritania	785	785	100%	785	100%	785	100%
Mozambique	705	705	100%	705	100%	705	100%
Niger	207	207	100%	207	100%	207	100%
Nigeria	28,873	28,873	100%	28,873	100%	28,873	100%
Rwanda	67	67	100%	67	100%	67	100%
Senegal	623	623	100%	623	100%	623	100%
Sudan	11,724	11,724	100%	11,724	100%	11,724	100%
Tanzania	573	573	100%	573	100%	573	100%
Togo	1,597	1,597	100%	1,597	100%	1,597	100%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $3 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $3 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
Uganda	392	392	100%	392	100%	392	100%
Zambia	512	512	100%	512	100%	512	100%
Sierra Leone	950	950	100%	950	100%	950	100%
Guinea- Bissau	738	738	100%	738	100%	738	100%
Lesotho	485	485	100%	485	100%	485	100%
Zimbabwe	3,494	3,494	100%	3,494	100%	3,494	100%
Guinea	3,188	3,188	100%	3,188	100%	3,188	100%
Burundi	758	758	100%	758	100%	758	100%
Angola	8,631	8,379	97%	8,253	96%	8,126	94%
Sao Tome	350	313	89%	294	84%	276	79%
Cape Verde	463	321	69%	250	54%	179	39%
Swaziland	368	231	63%	163	44%	95	26%
Namibia	800	0	0%	0	0%	0	0%
Gabon	3,800	2,860	75%	2,391	63%	1,921	51%
Seychelles	514	346	67%	263	51%	179	35%
Botswana	401	0	0%	0	0%	0	0%
Equatorial Guinea	244	0	0%	0	0%	0	0%
Mauritius	858	0	0%	0	0%	0	0%
South Africa	5,321	0	0%	0	0%	0	0%
	1,349,574	**589,136**		**486,614**		**423,843**	

4.2 Cancellation needed on the basis of a poverty level of $2 a day

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
East Asia & Pacific	**255,024**	**97,052**	**38%**	**80,563**	**32%**	**64,075**	**25%**
Cambodia	2,505	2,505	100%	2,505	100%	2,505	100%
Lao PDR	1,577	1,577	100%	1,577	100%	1,577	100%
Mongolia	756	756	100%	756	100%	756	100%
Myanmar	5,647	5,647	100%	5,647	100%	5,647	100%
Vietnam	11,815	11,815	100%	11,815	100%	11,815	100%
Solomon Islands	155	132	85%	120	77%	109	70%
Papua New Guinea	1,343	1,053	78%	908	68%	763	57%
Indonesia	67,308	48,078	71%	38,463	57%	28,848	43%
Philippines	38,840	25,442	66%	18,742	48%	12,043	31%
Tonga	81	47	58%	30	37%	13	15%
China	79,039	0	0%	0	0%	0	0%
Fiji	120	0	0%	0	0%	0	0%
Thailand	19,187	0	0%	0	0%	0	0%
Malaysia	26,473	0	0%	0	0%	0	0%
Samoa	177	0	0%	0	0%	0	0%
Europe & Central Asia	**296,674**	**19,152**	**6%**	**12,283**	**4%**	**7,739**	**3%**
Georgia	1,172	1,172	100%	1,172	100%	1,172	100%
Kyrgyz Republic	1,011	1,011	100%	1,011	100%	1,011	100%
Moldova	734	734	100%	734	100%	734	100%
Tajikistan	739	739	100%	739	100%	739	100%
Uzbekistan	3,965	3,965	100%	3,965	100%	3,965	100%
Serbia	9,508	4,813	51%	2,466	26%	118	1%
Bulgaria	8,572	3,852	45%	1,493	17%	0	0%
Bosnia	2,644	1,351	51%	705	27%	59	2%
Armenia	644	354	55%	208	32%	63	10%
Azerbaijan	830	475	57%	297	36%	120	14%
Ukraine	8,196	1,637	20%	0	0%	0	0%

	NPV of PPG debt including IMF direct	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service		Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service		Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service	
Region	**($M)**	**extent of debt relief required ($M)**	**relief as percent of debt**	**extent of debt relief required ($M)**	**relief as percent of debt**	**extent of debt relief required ($M)**	**relief as percent of debt**
Macedonia, FYR	1,104	65	6%	0	0%	0	0%
Turkey	66,037	2,682	4%	0	0%	0	0%
Albania	756	0	0%	0	0%	0	0%
Belarus	638	0	0%	0	0%	0	0%
Kazakhstan	3,485	0	0%	0	0%	0	0%
Romania	11,644	0	0%	0	0%	0	0%
Russian Federation	105,920	0	0%	0	0%	0	0%
Turkmenistan	762	0	0%	0	0%	0	0%
Croatia	8,525	583	7%	0	0%	0	0%
Latvia	1,132	0	0%	0	0%	0	0%
Lithuania	2,786	0	0%	0	0%	0	0%
Czech Republic	7,774	0	0%	0	0%	0	0%
Estonia	590	0	0%	0	0%	0	0%
Hungary	14,457	0	0%	0	0%	0	0%
Poland	28,577	0	0%	0	0%	0	0%
Slovak Republic	4,472	0	0%	0	0%	0	0%
Slovenia	0	0	0%	0	0%	0	0%
Latin America & Caribbean	**419,187**	**93,061**	**22%**	**48,688**	**12%**	**19,111**	**5%**
Haiti	1,186	1,186	100%	1,186	100%	1,186	100%
Guyana	449	384	86%	352	78%	320	71%
Honduras	1,705	1,346	79%	1,167	68%	988	58%
Bolivia	1,989	1,483	75%	1,230	62%	976	49%
Nicaragua	1,189	302	25%	0	0%	0	0%
Jamaica	5,135	3,935	77%	3,335	65%	2,735	53%
Belize	925	694	75%	578	63%	463	50%
Grenada	347	253	73%	205	59%	158	46%
Ecuador	12,261	7,994	65%	5,860	48%	3,727	30%
St Vincent & Grenada	223	133	60%	88	40%	43	19%
Paraguay	2,082	1,251	60%	835	40%	419	20%
Panama	7,415	3,990	54%	2,278	31%	565	8%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
Uruguay	7,419	3,927	53%	2,181	29%	435	6%
Peru	22,349	9,089	41%	2,459	11%	0	0%
El Salvador	5,063	1,752	35%	97	2%	0	0%
Colombia	24,324	5,193	21%	0	0%	0	0%
St. Lucia	226	40	18%	0	0%	0	0%
Venezuela, RB	27,644	3,150	11%	0	0%	0	0%
Dominican Rep	5,815	380	7%	0	0%	0	0%
Brazil	100,480	0	0%	0	0%	0	0%
Guatemala	3,660	0	0%	0	0%	0	0%
Argentina	85,534	46,233	54%	26,582	31%	6,931	8%
Dominica	213	129	61%	87	41%	45	21%
St Kitts & Nevis	314	216	69%	168	54%	119	38%
Barbados	703	0	0%	0	0%	0	0%
Costa Rica	3,406	0	0%	0	0%	0	0%
Chile	6,718	0	0%	0	0%	0	0%
Mexico	88,455	0	0%	0	0%	0	0%
Trinidad and Tobago	1,957	0	0%	0	0%	0	0%
Middle East & North Africa	**122,688**	**66,442**	**54%**	**44,210**	**36%**	**31,389**	**26%**
Yemen, Rep.	3,119	3,119	100%	3,119	100%	3,119	100%
Syria	15,742	15,742	100%	15,742	100%	15,742	100%
Djibouti	394	291	74%	239	61%	188	48%
Morocco	14,243	8,900	62%	6,229	44%	3,558	25%
Tunisia	13,035	7,106	55%	4,142	32%	1,178	9%
Jordan	6,507	3,062	47%	1,340	21%	0	0%
Egypt, Arab Rep.	22,894	9,851	43%	3,330	15%	0	0%
Algeria	20,329	5,838	29%	0	0%	0	0%
Iran, Islamic Rep.	7,756	0	0%	0	0%	0	0%
Lebanon	17,460	12,532	72%	10,068	58%	7,604	44%
Oman	1,209	0	0%	0	0%	0	0%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
South Asia	**135,473**	**133,804**	**99%**	**132,970**	**98%**	**132,135**	**98%**
Bangladesh	11,824	11,824	100%	11,824	100%	11,824	100%
Nepal	2,015	2,015	100%	2,015	100%	2,015	100%
Pakistan	24,082	24,082	100%	24,082	100%	24,082	100%
India	88,927	88,927	100%	88,927	100%	88,927	100%
Bhutan	593	531	90%	500	84%	469	79%
Sri Lanka	7,726	6,272	81%	5,544	72%	4,817	62%
Maldives	304	152	50%	76	25%	0	0%
Sub-Saharan Africa	**120,530**	**110,538**	**92%**	**109,368**	**91%**	**108,312**	**90%**
Benin	228	228	100%	228	100%	228	100%
Burkina Faso	253	253	100%	253	100%	253	100%
Cameroon	7,085	7,085	100%	7,085	100%	7,085	100%
Central African Republic	699	699	100%	699	100%	699	100%
Chad	1,582	1,582	100%	1,582	100%	1,582	100%
Comoros	275	275	100%	275	100%	275	100%
Congo	5,051	5,051	100%	5,051	100%	5,051	100%
Congo Democratic Rep	10,532	10,532	100%	10,532	100%	10,532	100%
Cote d'Ivoire	7,141	7,141	100%	7,141	100%	7,141	100%
Eritrea	666	666	100%	666	100%	666	100%
Ethiopia	507	507	100%	507	100%	507	100%
Gambia, The	346	346	100%	346	100%	346	100%
Ghana	560	560	100%	560	100%	560	100%
Kenya	4,194	4,194	100%	4,194	100%	4,194	100%
Liberia	1,168	1,168	100%	1,168	100%	1,168	100%
Madagascar	410	410	100%	410	100%	410	100%
Malawi	1,804	1,804	100%	1,804	100%	1,804	100%
Mali	609	609	100%	609	100%	609	100%
Mauritania	785	785	100%	785	100%	785	100%
Mozambique	705	705	100%	705	100%	705	100%
Niger	207	207	100%	207	100%	207	100%
Nigeria	28,873	28,873	100%	28,873	100%	28,873	100%

Region	NPV of PPG debt including IMF direct ($M)	Debt relief based on $2 a day poverty line and 20% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 30% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt	Debt relief based on $2 a day poverty line and 40% of net feasible revenue available for debt service: extent of debt relief required ($M)	relief as percent of debt
Rwanda	67	67	100%	67	100%	67	100%
Senegal	623	623	100%	623	100%	623	100%
Sudan	11,724	11,724	100%	11,724	100%	11,724	100%
Tanzania	573	573	100%	573	100%	573	100%
Togo	1,597	1,597	100%	1,597	100%	1,597	100%
Uganda	392	392	100%	392	100%	392	100%
Zambia	512	512	100%	512	100%	512	100%
Sierra Leone	950	950	100%	950	100%	950	100%
Guinea- Bissau	738	738	100%	738	100%	738	100%
Lesotho	485	485	100%	485	100%	485	100%
Zimbabwe	3,494	3,494	100%	3,494	100%	3,494	100%
Guinea	3,188	3,188	100%	3,188	100%	3,188	100%
Burundi	758	758	100%	758	100%	758	100%
Angola	8,631	7,974	92%	7,646	89%	7,318	85%
Sao Tome	350	306	87%	284	81%	262	75%
Cape Verde	463	304	66%	225	49%	145	31%
Swaziland	368	114	31%	0	0%	0	0%
Namibia	800	0	0%	0	0%	0	0%
Gabon	3,800	2,728	72%	2,192	58%	1,656	44%
Seychelles	514	332	65%	241	47%	151	29%
Botswana	401	0	0%	0	0%	0	0%
Equatorial Guinea	244	0	0%	0	0%	0	0%
Mauritius	858	0	0%	0	0%	0	0%
South Africa	5,321	0	0%	0	0%	0	0%
	1,349,574						

Annex 5. Countries omitted

Country	Reason omitted
Antigua & Barbuda	No debt recorded
French Polynesia	No debt or GNI recorded
Kiribati	No debt recorded
Libya	No debt recorded
Marshall Islands	No debt recorded
Micronesia	No debt recorded
Somalia	No data available
Suriname	No debt recorded
Timor Leste	No debt recorded
West Bank & Gaza	No debt recorded

Annex 6. United Nations Charter extract

CHAPTER IX
INTERNATIONAL ECONOMIC AND SOCIAL CO-OPERATION

Article 55

With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:

a. higher standards of living, full employment, and conditions of economic and social progress and development;

b. solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and

c. universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

Article 56

All Members pledge themselves to take joint and separate action in co-operation with the Organization for the achievement of the purposes set forth in Article 55.

Annex 7. A very short history of debt relief prior to HIPC

During the 1970s the indebtedness of both low and middle-income countries increased markedly in the face of two oil price shocks and aggressive marketing of loans by banks attempting to recycle the new wealth of oil exporters, as illustrated in Figures 1 and 2 of the main research paper. The big increase in real interest rates following the second oil price rise in 1979 combined with the subsequent deterioration in the terms of trade turned this into a real debt crisis[60].

At first the Paris Club of creditor countries rescheduled loans on non-concessional terms, i.e. they allowed for delays in the repayment of principal without the imposition of penalties, provided the debtor entered into a formal agreement with them. However, interest was charged at standard rates on the whole of the outstanding balance. Any delays in payment of interest just increased the principal outstanding. The assumption was that difficulties were temporary (a liquidity problem, rather than a solvency one) and so all that was needed was cashflow relief. Creditors clung to the belief that it would be possible for debtors to 'grow out of debt' by increasing their exports sufficiently to meet the cost of servicing their debts[61].

In the early 1980s concern about this crisis for the creditors (particularly the over-exposure of many banks in Latin America and other middle-income countries, which threatened to destabilise the whole Western banking system should they default) led to certain measures of debt relief for low- and middle-income countries[62]. There was also a process of (in effect) converting commercial debts into official ones[63], usually on somewhat more concessional terms, where governments made new loans that were used to pay off commercial ones (defensive lending). Even where the terms were not at all concessional, governments were often prepared to lend in circumstances where banks were no longer prepared to do so. The offers of debt relief came with conditions – 'reforms' were demanded in return for the debt relief. These conditions aimed at imposing austerity measures on debtor governments and usually pushed the neo-liberal agenda involving privatisation and the opening of domestic markets to transnational corporations.

Structural adjustment loans from the World Bank and, later, the Growth and Poverty Reduction Facility (GPRF) loans from the IMF effectively converted bilateral debt into softer multilateral debt (more defensive lending), but pushed the same 'Washington consensus' agenda. This may have eased the immediate liquidity problems of debtor countries to some extent but its main purpose was to prevent a default and protect both private banks and creditor countries from the consequences of their overexposure and irresponsible lending during the late 1970s and 1980s.

Brady bonds

For middle-income countries, the Brady initiative in 1989 allowed for the writing down of (i.e. the reduction in) some of the outstanding principal and converted commercial debt to official debt. In fact, however, the actual reduction in debt service payments was generally limited or zero, and in some cases was negative. This was because interest rates were fixed and were not adjusted when market rates fell, as they did before very long.

Paris Club

In 1988 the Paris Club agreed for the first time to a reduction in interest rates and lengthening of repayment periods that reduced the present discounted value (PDV)[64] of the loans. It was not until 1995, however, that reductions in the stock of debt were first accepted in this forum. In 1996 the range of Paris Club terms was further developed, increasing the reduction in debt for some countries to 90 per cent. Many received much less generous terms, including, most recently, Nigeria which was granted a 60 per cent reduction.

Annex 8. Paris Club history of terms for rescheduling

Paris Club reschedulings by type of terms, 1976–98						
	Date	Number of reschedulings	No. of countries	Amount consolidated (million dollars)	Stock or flow	Stock operations (million dollars)
Nonconcessional	Before October 1988	81	27	22,803	flow deals only	...
Toronto terms	October 1988–June 1991	28	20	5,994	flow deals only	...
London terms	December 1991–December 1994	26	23	8,857	flow deals only	...
Naples terms	Since January 1995	34	26	14,664	7 stock deals	2,518
Lyon terms	Since December 1996	5	4	2,775	2 stock deals	709
Source: IMF staff estimates. ... Denotes not applicable.						

Source: Robert Powell (2000) 'Debt relief for poor countries', in Finance and Development 37.4, December (Washington: International Monetary Fund).

Since that report was written, Lyons terms have been replaced by Cologne terms and the Evian approach, which is more flexible, was introduced in October 2003. The level of concessionality and date of applicability is summarised in the following table. Cologne terms are only available to countries eligible for HIPC. The Evian approach has been available since 2003 but has no standard terms – it is described as flexible to meet the needs of the country concerned.

	Concessional value in terms of reduction in present value	**Status**
Houston terms	Some, varies	September 1990 to date
Toronto terms	0-33%	October 1988 to 1991
London terms	50%	December 1991 to December 1994
Naples terms	67%	January 1995 to date
Lyons terms	80%	November 1996 to November 1999
Cologne terms	90%	November 1999 to date

Endnotes

1 The World Bank, consisting of the International Bank for Reconstruction and Development (IBRD) and its soft loan window the International Development Association (IDA), and the International Monetary Fund (IMF) were set up after a conference held at Bretton Woods in 1944 and are so known collectively as such. The term includes the International Finance Corporation (IFC) established in 1956.

2 For a critique of the BWI's Debt Sustainability Framework, introduced in 2005 to control future lending decisions to IDA countries, see Eurodad's briefing *Still missing the point: Unpacking the new World Bank/IMF debt sustainability framework*, September 2005 http://www.eurodad.org/articles/default.aspx?id=649, and Caliari A (2006) *The New World Bank/IMF Debt Sustainability Framework - A Human Development Assessment* (Brussels: CIDSE)

3 The outcome of the International Conference on Financing for Development, held at Monterrey, Mexico in March 2002 is called the Monterrey Consensus.

4 Pettifor A (2002) *Chapter 9/11? Resolving International Debt Crises – The Jubilee Framework for International Insolvency* (London: **nef**).

5 See Annex 1 for a discussion of these terms.

6 *World Development Indicators*, 2001.The proportion living on under $3 a day was nearly 59 per cent according to *PovcalNet*.

7 Purchasing power parity calculations compensate for differing price levels between countries. For many Southern countries this means reducing the nominal value to about a third.

8 Northover H, Joyner K, & Woodward D (1998) *A Human Development Approach to Debt Sustainability Analysis for the World's Poor* (London: CAFOD).

9 Hanlon J (2000) *Cancelling Debt to Permit Development* (London: Jubilee 2000 Coalition).

10 Van Hees T, Lemoine F & Haegens A (2002) *Putting Sustainable Development First* (Brussels: Eurodad).

11 See, for example Hanlon J (2006) '"Illegitimate" Loans: lenders, not borrowers, are responsible', *Third World Quarterly* 27.2.

12 The right to health is spelled out in Article 12 of the International Covenant on Economic, Social and Cultural Rights 1966.

13 Defensive lending is lending which purely enables debt to be rolled over. Old debts are repaid with new ones.

14 Developing countries are those in which 2003 gross national income (GNI) per person was below $9,386.

15 Grants, as defined here, include aid administration, food and other emergency aid as well as debt relief and 'real' aid.

16 *The Guardian*, 15 April 2006.

17 Before the HIPC initiative, debt relief was confined to an arbitrary percentage reduction in debt set by the creditors, with no formal recognition of the need for a criterion to define debt sustainability. Kaiser J (2005) 'The G8 Agreement on Debt Relief Beyond HIPC – What can debtor countries expect?', paper prepared for the G24 Technical Working Group Meeting, 15 September.

18 The Paris Club consists of the main creditor countries. The London Club is the equivalent of major commercial creditors.

19 Cameroon completed the process in April 2006 to reach this total.

20 Countries are only eligible for consideration for HIPC if the ratio of the NPV of their debt is greater than 150 per cent of earnings from exports of goods and services or than 250 per cent of government revenue.

21 Independent Evaluation Group (2006) *Debt relief for the poorest: an evaluation update of the HIPC Initiative* (Washington: World Bank)

22 A recent review of HIPC conditionality (Woods A, forthcoming 2006) concluded that on average a country had to fulfil 11 prior actions and 44 benchmarks in their Poverty Reduction Support Credit (PRSC) agreement.

23 Completion point is where, having met the conditions set by the IMF, countries get the full debt relief envisaged under HIPC.

24 World Bank commodity price forecasts have consistently been found to be optimistic and volume forecasts have often not been achieved either.

25 Independent Evaluation Group (2006) *Debt Relief for the Poorest* (Washington: World Bank).

26 In fact the IMF has decided to extend its package to two other countries, Cambodia and Tajikistan, to comply with internal rules regarding equal treatment of members.

27 IDA is the soft loan window of the World Bank and ADF is the equivalent at the African Development Bank.

28 With the exception of Mauritania, which was accused of falsifying data to reach completion point in the first place.

29 ADF debt cancellation is expected to be backdated to January 2006.

30 Chapter 9, Articles 55 and 56, see Annex 6.

31 Maxwell S (1999) *What can we do with a rights-based approach to development?* , ODI Briefing Paper (London: Overseas Development Institute).

32 Joyner K, Northover H & Woodward D (1998) op. cit.

33 Hanlon J (2000) op. cit.

34 United Nations Conference on Trade and Development (UNCTAD), Trade and Development Report, 1998, page130.

35 Compared with the average tax incidence of 37 per cent of GNI for the OECD countries which have much greater capacity to administer progressive taxes such as income tax and have a much higher level of average income.

36 Edward P (2006) 'The Ethical Poverty Line: a moral quantification of absolute poverty', *Third World Quarterly* 27.2.

37 The present value of a debt can be thought of as the sum one would need to put into a bank at a commercial rate of interest today in order to finance the stream of payments necessary to repay the debt over its life with the last payment emptying the bank account.

38 Deaton A (2003) ‘Health, Inequality and Economic Development’, *Journal of Economic Literature*, 41:113-58.

39 The main departures from the striking trend are certain countries in Africa which are badly affected by AIDS and/or armed conflict.

40 Wagstaff (2003) ‘Child health on a dollar a day: Some tentative cross-country comparisons’, *Social Science and Medicine* 57.9:1529-38.

41 UNCTAD (1998) op. cit. page 130.

42 We made the calculations with data from 93 countries, as five (Czech Republic, Hungary, Singapore, Slovenia and Trinidad) were off the upper end of the scale, rendering the calculations less accurate for the lower end.

43 The extra resources made available by debt cancellation are the domestic resources freed up from paying debt service.

44 Somalia is not listed in GDF data and so has had to be left out.

45 All HIPC countries need further debt relief beyond that which they have received under MDRI under the $3 assumption, and only Nicaragua does not need extra relief under the $2 assumption, and then only if at least 30 per cent of revenue is considered available for debt service.

46 For details of which countries had to be omitted and why see Annex 5.

47 Kaiser J (2005) op. cit.

48 World Bank (2006) *HIPC at a Glance.*

49 I am grateful for Celine Tan for her presentation at the Eurodad Conference in February 2006 which informs this discussion.

50 Sack A N (1927) Les effets de transformations des Etats sur leur dettes publiques et autres obligations financiers (Paris: Recueil Soirey) translated from the French by Patricia Adams and quoted by her in (1991) *Odious Debts: Loose Lending, Corruption, and the Third World’s Environmental Legacy* (London: Earthscan) page 165.

51 Hanlon J (2006) op. cit.

52 There is an argument to be made that in the presence of widespread corruption or oppression, the fact that the loan may have been used for beneficial purposes is irrelevant if this freed up domestic funds for other, illicit purposes.

53 For a further discussion of this see Hanlon J (2006) op. cit.

54 Simms A (2005) *Ecological Debt: The Health of the Planet & the Wealth of Nations* (London: Pluto Press).

55

56 http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp

57 Where 2004 data is not available we have taken the most recent, notably the present value of PPG debt, which is 2003.

58 According to DAC data, only 50 per cent of grants on average (already excluding technical assistance) are available – the rest is spent on administration, debt relief, food and emergency aid.

59 Ideally each country would have a discount rate based on the cost of commercial funds that might be available to it. We have arbitrarily assumed 8 per cent.

60 Between 1980 and 1986, terms of trade for sub-Saharan Africa fell by more than 30 per cent. Hanlon J (2000) op. cit. page 9.

61 The fact that donors were mainly urging southern countries to increase their exports of a small range of primary commodities which would thus increase world supply and drive down the price to the North, was largely ignored. This reduction in commodity prices meant that the goal of growing out of debt became ever more impossible. The fact that most exports from the South have a price elasticity of demand of less than 1 meant that a 1 per cent increase in supply leads to a decline in price of more than 1 per cent.

62 For a review of the unfolding of Paris Club terms, see Annex 8.

63 Commercial loans are those where the creditor is a private financial institution, such as a bank; official loans are where the creditor is a government or multilateral institution; public loans are those where the debtor is a government or a parastatal, while private loans are where the debtor is a private firm or individual. This latter may be publicly guaranteed as part of an export credit guarantee scheme, in which case default leads to the debt becoming official *and* public.

64 See Box *Why use Net Present Values?* on page 13.

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