

Executive summary

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

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

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

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

The effect on poor people of this massive haemorrhaging of money has been substantial and devastating. The UN has estimated that 19,000 children

die each day as a result of the social impact of debt.³

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

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

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

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

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

The countries left out in the cold include Bangladesh, Brazil, Eritrea, Kenya, the Philippines, Sri Lanka, Ecuador, Peru, Haiti, Guatemala and Indonesia. All are home to vast numbers of poor people and are forced by an iniquitous system

to divert large amounts of money away from critical social expenditure to debt repayments which end up in the bank accounts and government exchequers of the rich North. Christian Aid believes that this situation is unsustainable. The G8's achievements at Gleneagles, however limited, are welcome – but they will also force campaigners around the world to ask whether it is time for a fundamental reappraisal of the tactics required to end the injustice of debt once and for all. This report argues that it is.

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

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

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

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

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

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

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What About Us? Debt and the Countries the G8 Left Behind

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

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

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

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

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

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

Recommendations to creditors

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

Recommendations to debtors

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

**For full report see:
www.christian-aid.org.uk.**