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World > Europe
from the July 07, 2005 edition

The G-8's bottom line on helping poor nations

By [Mark Rice-Oxley](#)

G-8 leaders converged on Edinburgh Wednesday for one of the most critical summits in the 30-year history of the rich-nation club.

Britain, which chairs the G-8 this year, has told its fellows - Canada, France, Germany, Italy, Japan, Russia, and the United States - that 2005 is a make-or-break year in the battle against global poverty. Antipoverty campaigners argue the exclusive club has a unique opportunity to stop 30,000 children from dying each day from hunger, lack of clean water, and disease.

The Monitor's London correspondent, Mark Rice-Oxley, explains why the G-8 is exploring debt relief, aid, and trade to ease the plight of impoverished nations, particularly in Africa.

1. What is the impetus for the G-8 agenda on debt relief, aid, and trade?

Five years ago, the United Nations (UN) drew up a list of eight "Millennium Development Goals" that sought to halve global poverty, slash child mortality, and bring primary education to all by 2015. Failure to redouble efforts now, critics say, means those targets won't be met 100 years hence.

British Prime Minister Tony Blair and his finance minister, Gordon Brown, have called for aid to the developing world to be doubled to \$100 billion annually.



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Some progress has been made ahead of this week's summit in Gleneagles, a sumptuous golf resort north of Edinburgh.

Mr. Brown has trumpeted a deal with Europeans to increase aid budgets, while President Bush has pledged to double US aid to \$8 billion a year by 2010. Rich countries have also concluded a partial debt write-off worth more than \$1 billion a year (\$40 billion in total) for 18 of the world's poorest countries.

But aid agencies say there's a long way to go, and the cause has once again been amplified by the tireless lobbying of high-profile rock-star "ambassadors" like Sir Bob Geldof and U2 singer Bono.

"These agreements are a small step forward, but a giant leap is needed," says Stephen Rand, co-chairman of Jubilee Debt Campaign, part of the "Make Poverty History" umbrella group that is pushing for radical action.

"There is the moral dimension of how can you turn your back on 50,000 people dying every day," he adds. "There's the practical issue too: Africa is potentially an enormous contributor to the world economy and an engine of economic growth."

The G-8 leaders, who meet through Friday, are acutely aware of the mounting popular pressure on them to act.

Already, Saturday's Live 8 concerts, the biggest rock event in history, have galvanized millions. And thousands of activists have made their way to Scotland to remind the G-8 this week that away from the protocol and the politics, there is a large constituency that wants to see deeper debt relief, bigger aid deals, and fairer trade.

2. Why is debt such a burden?

In total, the poorest 60-odd countries owe the rich world more than \$520 billion. To pay the interest on this debt costs \$100 million every day. Many still spend more on paying off debt than they do on healthcare or education.

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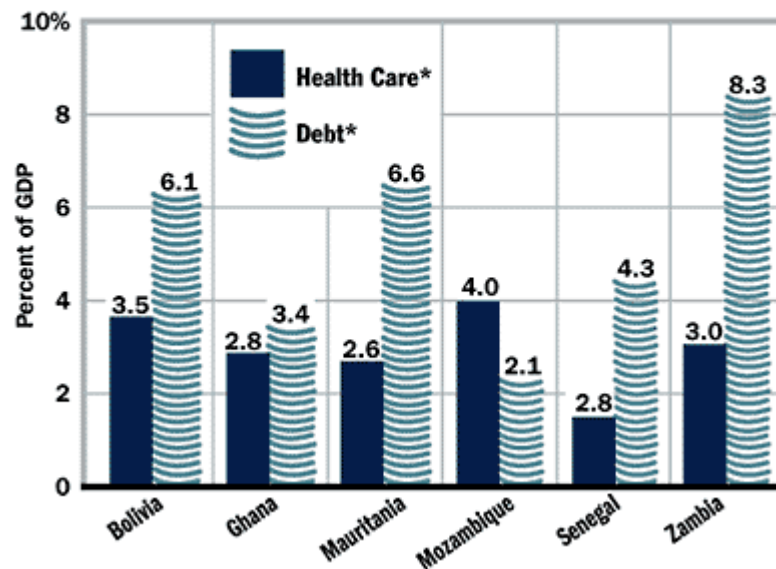


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How debt relief could help

Of the 18 heavily indebted poor countries that qualify for debt relief, many devote a higher percentage of national income to paying off the interest on their loans than to public healthcare.



* DEBT FIGURES ARE FOR 2002. HEALTHCARE FIGURES ARE FOR 2001.

SOURCES: HUMAN DEVELOPMENT REPORTS, UNITED NATIONS DEVELOPMENT PROGRAM; SCOTT WALLACE - STAFF

This has, aid agencies argue, created a vicious cycle in which countries cannot invest in the future. They are, to borrow a Bono lyric, "running to stand still."

3. Where did the debt come from?

Much of it is traced back to the easy credit climate of the 1960s and 1970s, when oil money and other questionable credits were loaned casually, often to equally questionable regimes. Since then, periods of high interest rates and low commodity prices combined to create a stock of what some people call "odious debt" that is compounded each year by interest.

Some blame is attached to poor and corrupt governance, but antidebt campaigners say lenders must bear responsibility, too. They cite the case of the International Monetary Fund (IMF) continuing to lend to Congo (then known as Zaire) despite suspicion that ruler Mobutu Sese Seko was diverting huge sums for his private delectation.

4. How much remains?

The deal struck last month cancels \$40 billion worth of debts owed by 18 of the poorest countries to the World Bank, IMF and African Development Bank. It will save them around \$1.5 billion a year in interest payments. Some analysts note that this is only a fraction of the extra \$50 billion a year that Blair and Brown wanted earmarked for poor countries this year. It is also only a tiny portion of the total stock of debt owed by poor countries, estimated at more than \$520 billion.

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5. Who picks up the tab when debts are canceled? How much will this cost Americans and other citizens of the "wealthy" nations?

It depends who the creditor is, but in most cases, when debt is written off, the burden is borne by taxpayers in the creditor country. With the cancellation of debt to the IMF and World Bank, there has been concern that these lending bodies will be starved of capital to make future loans.

The onus of replenishing their coffers will fall on rich countries that provide much of the funding to these institutions. The US share of the debt write-off is estimated at \$1.75 billion over 10 years - less than a dollar per year per person.

6. Which countries stand to benefit? How is the G-8 ensuring that more "odious debt" does not ensue?

Initial beneficiaries of last month's debt announcement are 18 of the so-called heavily indebted poor countries (HIPC) initiative: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Another nine countries are close to qualification and a further 11 have yet to get to first base on account of concerns over governance, war, instability, or all three.

This initiative has enabled the rich world to audit aid flows. The US, in particular, insists on tying aid to good governance. President Bush said before the summit that he wanted a partnership with Africa and "that's different than a relationship of check-writer." He told the Times of London, "We've got obligations and so do the people we're trying to help."

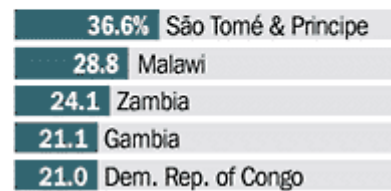
Aid agencies argue that it takes two to create the conditions for corruption - one paying the bribes and one taking them. But economists say that some good has been done by trying to ensure that cash - from debt relief, aid, or other development projects - is used judiciously.

"It is my impression that there have been improvements - particularly with arrangements and mechanisms to monitor the way that foreign exchange saved from debt write-off is used," says Prof. Robert Wade, an expert in development at the London School of Economics.

7. What about aid?

Debt relief is just one part. Britain also wanted to double aid donations to \$100 billion a year, via two methods.

Percentage of government revenue used to pay debt (Paying more than 20 percent)



SOURCES: WORLD BANK, INTERNATIONAL MONETARY FUND; AP

Notebook: Africa

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First, it has urged rich countries to meet commitments made 35 years ago to earmark 0.7 percent of national income to aid - and has secured a pledge from European countries to do so by 2015.

Second, it has proposed the International Finance Facility (IFF), which allows nations to borrow money using future aid budgets as collateral. The US opposed the IFF. A pilot plan to fund vaccinations for babies will launch this summer. Another idea is to channel receipts from an existing tax on air travel to the aid coffers.

8. What about trade?

Development experts say that trade - the third item on the British agenda - is even more vital to Africa's prosperity than aid and debt relief. Without fairer trade rules for African exporters, they argue, aid and debt relief just treat the symptoms - not causes - of poverty.

"Trade is crucially important," says Richard Tarasofsky, a sustainable development expert at the Royal Institute for International Affairs in London. "If one wants to have sustainable economic growth in Africa and other developing countries, there needs to be an effective trade-liberalization package."

Developing countries say that the global trade system is stacked against them through rich-world subsidies, particularly on agricultural goods, and other barriers to markets. Yet rewriting the rules is complex and controversial - as proven by one failed round of World Trade Organization (WTO) talks in 2003 and recent rows in Europe about scrapping farm subsidies. Indeed, at Gleneagles, G-8 summiteers may decide to defer to a WTO ministerial conference in Hong Kong in December.

9. What else is on the G-8 agenda?

Blair wants to galvanize action on climate change, but consensus will be difficult, given Bush administration skepticism about global warming.

Officials have haggled over the text of the final communique to be issued in Scotland, with Americans reportedly unhappy at wording that links definitively the evidence of global warming with human activity. Bush has said he will give little ground in Scotland. Blair admits that there will be no persuading the US to reconsider the Kyoto treaty that aims to limit emissions thought to raise global temperatures.

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