

## Special Report Number 1: June 2005



### Paris Club Debt Relief: A Bitter Pill to Swallow Rwanda, Zambia and Honduras Meet the Paris Club

In May this year, the three most recent HIPC Initiative completion point cases (Rwanda, Honduras and Zambia) met with the Paris Club (as is the norm following achievement of completion point under the initiative). From the civil society views presented here, it appears unlikely however that this will secure long-term debt sustainability for the countries involved. All three comment pieces point to the overwhelming levels of poverty still prevalent in all three countries, and in the cases of Rwanda and Zambia, the devastating impact of HIV/AIDS. Meanwhile, Honduran NGOs point to the worrying levels of new debt being contracted by the country. All three countries are off-track towards meeting the MDGs by 2015.

In April, the All Africa.com website, an African information service provider, expressed optimism that 2005 might prove a watershed year in the drive to cancel much of Africa's foreign debt. However, it still appears that wealthy creditor nations, and in particular the G7, are still not prepared to budge on the issue of **multilateral** debt cancellation or provide enough new and additional financing in the form of grants. The UN Millennium Project report puts estimated annual financing needs to achieve the MDGs at over US\$60bn. Poor countries also owe most of their debts to the multilateral institutions, which are not being cancelled systematically. So far, only the UK, Canada and Netherlands have pledged some additional financing to help cover the costs of debt service owed to the World Bank and African Development Bank for a limited group of countries over the next ten years. But these efforts are also woefully inadequate. In total, they cover around only 18% of the debt service owed to two multilateral institutions for some 23 countries for 10 years. Inter-American Development Bank debts are excluded from these efforts and Honduras will reimburse a total of US\$80 million next year to the IADB rising to US\$ 82 million in 2007.

So while the Paris Club may glorify its achievements, the fact remains that a) these countries need 100% cancellation of **all** of their debts if they are to have any hope of making inroads towards achieving the MDGs by 2015; and b) the Paris Club as a forum for debt work-outs just isn't working as demonstrated by the endless visits of countless countries to have their debts renegotiated. It is clear that what is needed is a radical shake-up of the international debt architecture to avoid repeated cycles of indebtedness and relief. Proposals for a fair and transparent arbitration process represent one strong and viable solution in this regard. Paris Club creditors need (and should) take bold and immediate action on both of these points. That would really show members commitments to the MDGs

*Gail Hurley*

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## Rwanda

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On May 10, Rwanda met the Paris Club of wealthy creditor nations to try to obtain a reduction in the estimated US\$ 90.4 million it owes the Club. A group of 11 members of the Club participated in the talks between the Rwandan Government and representatives from creditor countries. These included Austria, Belgium, Britain, Canada, Denmark, France, Germany, Italy, Japan, the Netherlands and the US. The Paris Club agreed to cancel a total of US\$ 82.7 million. In addition, several bilateral donors agreed to go further to cancel an additional US\$ 7.7 million.

Following the announcement, Rwanda's Finance Minister, Donald Kaberuka, told a local newspaper the country is getting close to a total write off of all its outstanding debt (US\$ 1.56bn). Nevertheless, a closer look at the HIPC Statistical Update of the IMF and World Bank HIPC released last month reveals however, that Rwanda will still have to bear rising levels of debt service over the coming years. Rwanda's debt service after enhanced HIPC Initiative debt relief is expected to shoot up to reach US\$ 8.6 million in 2006 and US\$ 10.2 million in 2007.

Patrick Osodo from Trócaire, an Irish NGO working in the country remained upbeat however. We are moving in the right direction and the government is committed, he says. Government's expenditure is directed to health, education and infrastructure. The macroeconomic foundations seem set. However Rwanda will need more rather than less money to curb poverty and achieve the MDGs.

It is exactly over this point that the Rwandan government and donors find it difficult to compromise. Rwanda needs more money (either in the form of loans or grants) to finance poverty reduction and its efforts to achieve the MDGs, but donors want it to keep its fiscal deficit targets.

Rwanda is a poor rural landlocked African nation, with about 90% of its population dependent on agriculture. The 1994 genocide severely diminished its human resource base and impoverished its people. Despite the remarkable progress towards stabilization over the last 10 years, some 60% of Rwandans still live below the poverty line. Life expectancy is only 39 years of age and the country ranks 159 out of 177 in the UNDP Human Development Index 2004. With 65% of its recurrent budget and 90% of its development budget coming from donors, Rwanda has been arguing a strong case with its bilateral donors and IFIs for more debt relief and more money. Last year, the World Bank approved a US\$ 65 million dollar package to the country, of which US\$ 50 million came in the form of a grant. The needs for rural reconstruction are however overwhelming. Under the current agreement with its main donors Rwanda can only meet these needs through grant financing.

While the Macro-economic foundations seem promising, Rwanda will need to double its efforts on the social front. Poverty, inequity and racial intolerance persist and remain the key challenges towards recovery and normalcy for the post-genocide state, says Osodo. Earlier in April, Rwanda reached completion point under the enhanced HIPC Initiative and received US\$ 1.4 bn debt relief in nominal terms on debt owed to the IMF and World Bank, becoming the 18<sup>th</sup> country to reach this point under the initiative.

- **Paris Club Press release - The Paris Club agrees to cancel 100% of Rwanda's debt**

([http://www.clubdeparis.org/rep\\_upload/PRRwandaMay10,2005.pdf](http://www.clubdeparis.org/rep_upload/PRRwandaMay10,2005.pdf))

- **Heavily Indebted Poor Countries Initiative Statistical Update**

(<http://www.imf.org/external/np/hipc/2005/040405.pdf>)

- **Debt cancelled for Rwanda**

([http://www.finance24.com/articles/economy/display\\_article.asp?Nav=ns&lvl2=econ&ArticleID=1518-25\\_1703606](http://www.finance24.com/articles/economy/display_article.asp?Nav=ns&lvl2=econ&ArticleID=1518-25_1703606))

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## Zambia

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On May 12, the Government of Zambia met with Paris Club creditors who agreed to a US\$1.4 billion debt relief package to Zambia, supposedly in recognition of its achievement of completion point under the HIPC Initiative. Additional pledges of bilateral assistance amounting to US\$ 393 million will reduce its commitments to Club creditors from US\$ 1.92 billion to US\$ 124 million. The deal also includes a rescheduling of 50% of the debt amount left to be repaid in 2005, 2006 and 2007.

The country's external debt is estimated at around US\$ 7 billion (at the end 2003), 45% of which is bilateral debt, according to Jubilee Zambia. Its annual GDP is only US\$ 3 billion. While Zambia is expected to save around US\$ 30 million per year over the next 10 years as a result of the Paris Club deal, Zambians will nonetheless still need US\$ 600 million per year for the next decade to finance the millennium goals, says Jack Jones Zulu, from Jubilee Zambia.

According to the Zambian Government and the IMF/World Bank, Zambia's debt is now once again sustainable. However Jack Jones Zulu argues that the issue is not so much to have sustainable debts but to have sustainable human development reflected in more school places, employment opportunities, clean water and health, etc.

In addition, Zambia's debts are likely to rise in the future, particularly if the country does not address problems with its current loan contraction procedures. The Ministry of Finance is allowed to borrow without consultation of parliament or any other agency. Debt service to government revenue ratio is also extremely high and fluctuates in the range of 30-38%, well above the UN's recommended 13% maximum for poor countries. If our economy continues to grow at very low levels while the government is borrowing heavily, certainly we are likely to get back into another debt trap. Remember: our economy depends on primary commodities whose prices are highly volatile, remarks Zulu.

With more than 11 million inhabitants, the copper-rich country has become one of the poorest in the African continent. It ranks 164 in the UN Human Development Index out of 177 countries. The UNDP estimates that its population lives on an annual income of just US\$ 840 GDP per capita (value adjusted to local purchasing

power, as of 2002). Life expectancy levels have been terribly hit by HIV/AIDS: Zambians average only 32.7 years.

We do not know yet exactly how the money freed up by debt relief will be spent , fears Zulu. The concern refers to whether the government will loosen its purse strings on consumption areas (rumours suggest 2 000 extra civil servants will be hired in the near future) to the detriment of production and local investment. We need to create jobs, infrastructure, invest in agriculture, focus on rural areas. That is where we will target poverty; 70% of the poor population lives in rural areas.

Hopes are placed on Zambia s National Development Plan 2006-10, the government s document to guide the country s efforts on development in the next 4 years alongside a new PRS process. An oversight group formed by civil society, government and other actors - the Sector Advisor Groups is advising the government in the drafting of the Plan and working as a watchdog, to guarantee that poverty-focused policies are in place. In April, the country achieved completion point under the enhanced HIPC Initiative and is expected to receive US\$3.9 billion multilateral debt relief over time.

**- Paris Club Press release - Paris Club Reduces Zambia s Debt Under The Enhanced HIPC Initiative**

([http://www.clubdeparis.org/rep\\_upload/PrZamMay11,2005.pdf](http://www.clubdeparis.org/rep_upload/PrZamMay11,2005.pdf))

**- Paris Club Writes Off US\$1.4bn of Zambia's Debt All Africa.com**

(<http://allafrica..com/stories/200505130064.html>)

**- Paris Club reduces debt owed by Zambia Reuters**

([http://www.reuters.co.za/locales/c\\_newsArticle.jsp;:4282f5ad:70fa47837cabcb9?ty pe=businessNews&localeKey=en\\_ZA&storyID=8465329](http://www.reuters.co.za/locales/c_newsArticle.jsp;:4282f5ad:70fa47837cabcb9?ty pe=businessNews&localeKey=en_ZA&storyID=8465329) )

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## Honduras

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On May 12, the Paris Club of creditors granted US\$ 1bn in debt relief to Honduras, as a reward for the country's achievement of completion point under the HIPC Initiative. From the total amount granted, around 80% (US\$ 855 million) came as bilateral relief agreed by member countries of the Paris Club. The deal follows earlier relief granted by the Club, in April 2004, in which US\$ 147 million owed by Honduras was cancelled. Honduras s commitments to different donors reach US\$ 4.8bn (as of 2003), according to the IMF and the World Bank. Since early 2005, it has received US\$ 1,9bn in debt cancellation from different sources.

Canada, Denmark, France, Germany, Italy, Japan, the Netherlands, Spain, Switzerland and the US were all involved in the negotiations. UK and Norway sent representatives to the meeting, in Paris, as well the IMF, IDA and UNCTAD. Ricardo Maduro, President of Honduras expressed satisfaction at the deal, as the money freed up will allow Honduras to start investing to really reduce poverty [in the country] in a faster and meaningful way , he said to local press. The country ranks better than Zambia and Rwanda in the Human Development Index (115) but still, approximately, 70% of its 7 million inhabitants live below the poverty line.

Despite an overall positive assessment, civil society representatives point to the continued human costs attached to Honduras' debt service burden. A paper produced by Fosdeh (Foro Social de la Deuda Externa y Desarrollo de Honduras) (Social Forum for Honduras Foreign Debt and Development), a local NGO, recalls that even under moratorium declared soon after the Hurricane Mitch, Honduras continued to service its debt. Between 1999 and 2004, more than US\$ 1bn went out of the country on that basis. Debt relief has also come with increased conditions states the document.

Fosdeh also points to the new debts contracted by the country (US\$ 457 million in 2004). It fears that Honduras indebtedness will soon go back to unsustainable levels. Honduras, according to official figures, has changed from being a low income country to a middle income country. That will prevent it from participating in other debt relief initiatives, said the document. Other remarks made by civil society relate to the threat of conditionality attached to the money freed up. Recently, an IMF mission has arrived to the country to assess the economic situation.

Earlier this year, Honduras became the 16<sup>th</sup> country to reach HIPC Initiative completion point. Total multilateral cancellation is expected to reach US\$ 1bn over time.

**- Paris Club Press release - Paris Club Reduces Honduras Debt**

[http://www.clubdeparis.org/rep\\_upload/PrHondMay12,2005.pdf](http://www.clubdeparis.org/rep_upload/PrHondMay12,2005.pdf)

*En español*

**- Transparencia: El reto que deja la condonación de la deuda externa Paper produced by Fosdeh in response to the announcement by the Paris Club (see attachment)**

**- Club de París condona 1.061 millones de deuda a Honduras El Nuevo**

**Herald** <http://www.miami.com/mld/elnuevo/news/world/americas/11639519.htm>

**- Condonan \$1,061 millones a Honduras - La prensa grafica**

(<http://www.laprensagrafica.com/economia/202207.asp>)

**- Misión del FMI evalúa la economía hondureña**

<http://www.lahora.com.ec/NoticiaCompleta.asp?noid=339701>

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## Country information

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Country Debt relief granted by the Paris Club Bilateral debt relief

### **Total debt\***

#### **Rwanda**

US\$ 82.7 million

US\$ 7.7 million

US\$ 1.56bn

#### **Zambia**

US\$ 1,403 mn

US\$ 393 million

US\$ 7 bn

#### **Honduras**

US\$ 206 million

US\$ 855 million

US\$ 4.8 bn

\*includes bilateral, multilateral debts and other commitments

**Rwanda, Zambia and Honduras comment pieces prepared by Alessandra Fontana, Eurodad, Contact: [assistant@eurodad.org](mailto:assistant@eurodad.org)**

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Please email with any comments, contributions and questions.

Thanks!

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