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# Cancellation of Third World Debt

This Paper outlines some of the basic concepts relating to the issue of Third World debt and provides a brief description of the various debt relief plans that have been implemented by the international community over the years in an effort to ease the burden of official sector debt on developing countries. This Paper does not seek to cover all the arguments for and against debt cancellation. Instead this Library Paper analyses the effect of cancelling payable and unpayable third world debt on the UK Exchequer and the public sector net cash requirement (PSNCR).

Mick Hillyard

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## Summary of main points

The cancellation of unpayable debt of the heavily indebted poor countries has recently attracted great interest and is being promoted by some non-governmental organisations, especially Jubilee 2000 Coalition, as an appropriate way of celebrating the Millennium. The case for more debt cancellation has focused on the Heavily Indebted Poor Countries (HIPC), a group of 41 countries. Although figures on the level of indebtedness of developing countries are generally somewhat unreliable, the figure for total external debt of developing countries in 1997 is provisionally estimated at \$2,171 billion with HIPC accounting for about 11% of the total.<sup>1</sup> The 1997 HIPC initiative offered the opportunity of more debt forgiveness but not total debt cancellation.

This Paper concentrates upon the effect of debt cancellation on the UK Exchequer. In general, the effect on the UK Exchequer of debt relief, including debt cancellation, will depend upon the type of debt that is forgiven and whether or not there are any offsetting transactions. This paper describes how debt cancellation involving DFID aid debt and debt owed to International Financial Institutions is unlikely to have any direct effect on UK total public spending or the Exchequer generally.

The vast majority of official UK claims on poor countries consist of debts from unpaid export credits, administered by the Export Credit Guarantee Department (ECGD). At the end 1997, the outstanding debts on loans guaranteed by the UK Government through ECGD, to the 41 countries, identified under the HIPC initiative, amounted to £4,685 million.<sup>2</sup> However, this figure falls to £1,140 million when four countries (Nigeria, Liberia, Sudan and Somalia) which have very unreliable figures, are excluded. Six HIPCs<sup>3</sup> have no outstanding amounts with the ECGD whereas a further five HIPCs<sup>4</sup> have not apparently agreed a repayment schedule. This paper concentrates on the 26 HIPCs that have outstanding amounts with the ECGD and which have agreed payment schedules.<sup>5</sup> Figures supplied by the ECGD to the House of Commons Library show that the ECGD is due to receive £923 million in agreed payments from the 26 HIPC between 1998 and 2031, which amounts to nearly all the outstanding amounts owed to ECGD by the 26 HIPC.

In terms of debt cancellation, this paper estimates that cancelling the outstanding payments of principal owed by the 26 HIPC to the ECGD over the period between 1998 to 2031 will cost the Exchequer less than £30 million per year (less than £20 million when expressed in net present value), assuming all debts are payable. The potential Exchequer cost increases to £142 million per year when debts owed by Nigeria, Liberia, Sudan and Somalia are included.

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<sup>1</sup> *Global Development Finance*, 1998. In 1996 HIPCs owed \$235 billion.

<sup>2</sup> HC Deb 12 March c307-8W

<sup>3</sup> Burundi, Chad, Equatorial Guinea, Guinea-Bissau, Rwanda and Sao Tome and Principe

<sup>4</sup> Guinea, Honduras, Laos, Myanmar and Senegal.

<sup>5</sup> This relates to 26 HIPCs. The list of countries is set out on page 25.

It is important to note that these figures relate to principal only. It is also important to note that cancelling truly unpayable debt has no further effect on UK public finances since the cost to the Exchequer has already been incurred. In this sense, cancelling unpayable debt is a cost-free option. However, trying to determine whether a debt is payable or unpayable is ultimately arbitrary. This paper sets out a range of probable proportions of unpayable debt. Clearly, the larger the proportion of truly unpayable debt, the smaller the Exchequer cost of cancelling the remaining (so-called) payable debts. For example, assuming that 80% of the due amounts to the ECGD from the 26 HIPC is truly unpayable, then the average annual Exchequer cost of total cancellation of the residual debt is only some £6 million in current prices (£4 million NPV).<sup>6</sup> When set against the size of the government receipts, these sums seem fairly insignificant.

In conclusion, there may be political reasons against the UK unilaterally cancelling bilateral debt. However, in terms of the effect on the Public Sector Net Cash Requirement (PSNCR),<sup>7</sup> a programme of cancellation of **all** outstanding amounts due to the ECGD from 26 HIPCs (regardless of whether the sums are payable or unpayable) would account for a very small proportion of government receipts. The cost would seem to be generally affordable.

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<sup>6</sup> See Table 7 page 27

<sup>7</sup> Formerly known as the public sector borrowing requirement but renamed following publication of the *Comprehensive Spending Review*.

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# I Introduction

The Archbishop of Canterbury yesterday called international debt "immoral" and said all Christian leaders should condemn it.

Dr Carey described the debts of developing countries as a "moral problem of enormous proportions" and urged the 750 bishops gathered at the Lambeth Conference to make politicians see the evil of debt.<sup>8</sup>

The debt crisis started in August 1982 when Mexico informed its creditors that it was unable to service its vast foreign debts. Since then a series of countries have experienced profound difficulty in servicing their external debts, with dire consequences for their social and economic development. With their creditworthiness damaged these countries have experienced difficulty in attracting foreign capital to support their programmes of economic reform. Over the years, a succession of debt relief plans has been devised to ease their debt burden.<sup>9</sup> These plans have had mixed results.

Officially the debt crisis was over in 1994, except for around 40 severely indebted countries, who mainly through poverty have been unable to service their debts.

The cancellation of unpayable debt of the heavily indebted poor countries has attracted a great deal of interest and is being promoted by some non-governmental organisations, especially Jubilee 2000 Coalition, as an appropriate way of celebrating the Millennium.

The International Development Committee published its report into Debt relief on 14 May 1998.<sup>10</sup> While supporting much of the Government's approach towards debt relief, the Committee also called for, amongst other things, a faster and more transparent process of debt relief. The Government's response was published on the 3 August 1998.<sup>11</sup>

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<sup>8</sup> "Poorest countries are enslaved by debt, says bishop", 25 July 1998, *The Daily Telegraph*

<sup>9</sup> These are outlined in annex 1

<sup>10</sup> International Development Committee, Third Report, HC 563, 1997-98

<sup>11</sup> HC 1056, Third Special Report, 1997-98

## II Jubilee 2000 Coalition

The Jubilee 2000 campaign to cancel unpayable debts was launched in 1996 by three major Christian aid agencies in Britain and by the World Development Movement. A coalition was launched in support of Jubilee 2000 on Monday 13 October 1997 at the House of Commons. The Jubilee 2000 Coalition combines the efforts of Jubilee 2000 and the Debt Crisis Network to form one coalition representing some 8 million people in affiliated organisations and individual members. Jubilee 2000 has contacts in over 40 countries around the world.

The primary purpose of the Jubilee 2000 Coalition is a “debt-free start for a billion people”.

Jubilee 2000 believes the time has come to do something about it. Our aim is to celebrate the new millennium by lifting the burden of unpayable debt from the poorest countries. We have produced a clear, workable Jubilee Proposal calling for:

- a one-off cancellation
- by the year 2000
- of the backlog of unpayable debt
- owed by the world's poorest countries
- under a fair and transparent process

Further information on the Jubilee 2000 Coalition and its campaign is available on their website.<sup>12</sup>

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<sup>12</sup> Website <http://www.jubilee2000uk.org/>



### III Basic Concepts

It is useful to describe some basic concepts that relate to third world debt.

#### A. Net present value

Net present value (NPV) is an economic concept that is often used when dealing with debt relief. Net present value is the value now of a sum, or sums, of money arising in the future. A given sum of money is worth more now than in the future, both because of uncertainty and because it could be invested now to produce a greater sum in the future.<sup>13</sup> The present value of money in the future is calculated by discounting the future stream of money by a rate of interest equivalent to the rate at which it could be invested.<sup>14</sup> Thus £105 in a year's time has a present value of £100 with the interest rate at 5% per annum. In terms of debt, the present value of the debt represents the sum of money that would be needed now to meet the future stream of interest and principal repayments. In short, it is the sum that is required to be invested at the prevailing interest rates in order to generate the equivalent sum to match fully the debt payments over future years.

#### B. External debt

There are a number of different ways of categorising external debt: official or private sector debt; short or long term; and bilateral or multilateral. Debt may also be classified as overseas development assistance debt, which refers to loans provided at very concessional rates for developmental purposes or debt provided in the form of non-bank export credits, which are claims against the indebted country for insured exports. Debt could also be classified by lender as OECD or non-OECD country debt.<sup>15</sup>

The figures on external debt for developing countries are notoriously imprecise, with debtors and creditors sometimes disagreeing on the amounts owed. However, perhaps the best sources of information on the external debt position of countries are the World Bank's publication, *Global Development Finance* and the OECD's publication, *External Debt Statistics*. The figure for total external debt of developing countries in 1997 is provisionally estimated at \$2,171 billion with HIPC accounting for about 11%.<sup>16</sup>

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<sup>13</sup> A given sum of money is worth more now than in the future because of inflation. However, this is not the issue here. The concept of net present value would be relevant even in a world free of inflation.

<sup>14</sup> The rate of interest used is more precisely called the discount rate.

<sup>15</sup> In 1996 Russia became a member of the Paris Club of creditors countries. Russia and the Arab countries are non-OECD creditors.

<sup>16</sup> Op cit, page 3

### C. Classifying countries

The World Bank's Debtor Reporting System (DRS) collates data from 136 low and middle income countries. These countries are classified according to their level of indebtedness using both the ratio of present value of total debt service to GNP and the ratio of present value of total debt service to exports. These two ratios help to assess a country's capacity to service its debt. Exports provide the necessary foreign exchange to service external debt and GNP is the broadest measure of income generation in an economy.<sup>17</sup>

If either of these ratios for a particular country exceeds a critical value - 80% for the present value of debt service to GNP and 220% for present value of debt service to exports - the country is classified as severely indebted. A country that has ratios that do not exceed the critical values but has at least one ratio which is three-fifths of the critical value (i.e. 48% the present value of debt service to GNP and 132% for the present value of debt service to exports), is classified as moderately indebted. If both ratios are below the three-fifths value, the country is classified as less indebted. Countries are further classified as low income if 1995 GNP per capita is \$765 or less and as middle income if 1995 GNP per capita is more than \$765 but less than \$9,386.<sup>18</sup>

Combining these criteria allows the following classifications. The numbers in brackets for each category show the number of countries within the World Bank Debtor Reporting System (DRS)<sup>19</sup> and non-DRS countries. For example, there are 38 SILICs, of which all but one provide data to the World Bank.

SILICs: severely indebted low income countries (37+1);  
 SIMICs: severely indebted middle income countries (12+2);  
 MILICs: moderately indebted low income countries (12);  
 MIMICs: moderately indebted middle income countries (19+2);  
 LILICs: less indebted low income countries (11);  
 LIMICs: less indebted middle income countries (43+9);

Although these categories are based on a few debt indicators they nevertheless provide a useful way of classifying countries.<sup>20</sup>

### D. Heavily Indebted Poor Countries (HIPC)

Heavily Indebted Poor Countries (HIPCs) is another category that has recently been devised by the international financial community. HIPCs are countries that may be eligible for additional debt relief. 41 countries are classified as HIPCs of which 32 are

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<sup>17</sup> See *Global Development Finance*, 1997 appendix 1

<sup>18</sup> *ibid.*

<sup>19</sup> The number of DRS countries is based on 1992-95 data.

<sup>20</sup> A full listing of the classification is given in *Global Development Finance* 1997, table A1.2

classified as SILICs, seven have received previous concessional treatment from the Paris Club,<sup>21</sup> and two are lower middle income countries that have become International Development Association (IDA) only countries (Angola and Congo).<sup>22</sup>

The full list of HIPC is: Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Cote d'Ivoire, Equatorial Guinea, Ethiopia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Laos, Liberia, Madagascar, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Republic of Yemen, Zaire, and Zambia.

Although the World Bank has classified 41 countries as HIPCs, it can be argued that 4 countries (Nigeria, Liberia, Sudan and Somalia) have such unreliable figures that they be treated as a separate group. At the time of writing six HIPCs are on track for debt relief under HIPC initiative.

Table 1 shows that HIPCs, which are primarily sub-Saharan countries, account for nearly 14% of the total population of all developing countries and 11.5% of all external debts but only 3.3% of the total GNP and 4.7% of all exports of developing countries.

Table 1

**HIPC Relative to All Developing Countries, 1996**  
(percent)

<i>Region</i>	<i>Number of countries</i>	<i>Share of populations (a)</i>	<i>Share of external debt</i>	<i>Share of GNP</i>	<i>Share of exports</i>
Africa	33	10.6	8.8	2.3	3.3%
Asia	4	2.8	1.9	0.8	1.0%
Latin America	4	0.4	0.8	0.2	0.3%
<b>Total</b>	<b>41</b>	<b>13.8</b>	<b>11.5</b>	<b>3.3</b>	<b>4.7%</b>

(a) data for 1995

Source: World Bank data.

Jubilee 2000 Coalition, the non-governmental organisation that has been campaigning for the cancellation of unpayable debt of the poorest countries by the year 2000, has produced a list of 52 eligible countries.<sup>23</sup> Annex 2 provides some statistical data on the 41

<sup>21</sup> The Paris Club is the collective term for about 20 creditor countries, which meet to negotiate debt relief with debtors. The Paris Club is served by staff from the French treasury. The operations and discussions at the Paris Club are somewhat secretive. Different creditor countries will meet, depending upon on whether they have any bilateral debts with the debtor country at the time. Decisions are reached by consensus. Each member of the negotiating team has a veto.

<sup>22</sup> This paper uses the figures for 41 HIPCs and 26 HIPC unless otherwise stated. Nigeria is excluded from the aggregate data in the World Bank tables because it is not an IDA-only country and has never received concessional debt rescheduling. IDA is the highly concessional wing of the World Bank.

<sup>23</sup> The 41 HIPC and 11 others.

HIPCs as officially classified by the World Bank. Annex 3 lists the additional 11 countries which Jubilee 2000 Coalition have also identified as being eligible for debt cancellation. Annex 4 gives figures for those countries that have so far been identified by the World Bank as having an unsustainable debt burden.

### E. Foreign debt burden of developing countries<sup>24</sup>

Table 2 (overleaf) shows the total foreign debt, the foreign debt as a percentage of GNP, and the foreign debt service (interest and repayment of principal) as a percentage of exports for all developing countries, for developing countries in each geographical region and for the severely indebted countries for four years. The figures for 1980 show the position before the onset of the 1982 debt crisis, 1990 is a little after the height of the debt crisis and 1996 and 1997 are the latest years that figures are available.

**Table 2: Debt Indicators by Income Group and Region**

Country group	Share of 1997 total debt	Total Debt (\$bns) (EDT)				Total Debt as % of GNP (EDT/GNP)				Debt service to exports ratio (TDS/XGS)			
		1980	1990	1996	1997	1980	1990	1995	1996	1980	1990	1995	1996
All developing countries	100	603	1,444	2,066	2,171	21	35	36	35	13	18	17	17
<i>Indebtedness classification</i>													
Severely indebted	38%	242	624	798	822	33	61	48	46	24	30	29	31
Low-income	11%	57	210	241	233	31	139	111	94	10	21	20	15
Middle-income	27%	185	414	557	589	34	48	39	38	32	34	31	36
Moderately indebted	34%	227	501	730	738	20	30	40	36	15	25	21	19
Low-income	7%	43	138	166	161	19	36	38	34	13	28	26	23
Middle-income	27%	184	363	564	577	34	46	51	47	25	22	20	21
Other developing countries	25%	134	318	515	536	10	17	25	23	5	10	9	8
<i>Region</i>													
Sub-Saharan Africa	10%	84	196	227	223	34	75	78	71	10	18	14	12
East Asia and the Pacific	24%	65	239	477	512	16	37	34	32	12	18	13	12
South Asia	7%	38	130	152	154	17	34	27	26	12	28	22	21
Europe and Central Asia	18%	76	221	370	389	9	17	34	32	7	13	11	11
Latin America and the Caribbean	31%	257	475	656	678	36	46	37	38	36	25	32	34
Middle East and North Africa	10%	84	182	212	216	18	38	31	30	6	16	11	11
<i>Memo item</i>													
Heavily Indebted Poor Countries	11% (a)	-	183	234	-		17	13	12	27	24	26	30

Notes:

(a) Based on 1996 data

Preliminary data used for 1997

Based on (nominal) debt stock at year.

Source: World Bank Debtor Reporting System, Global Development Finance. 1998 and previous editions.

Table 2 shows that total foreign debt of all developing countries was \$603 billion in 1980, of which \$257 billion related to the debts of Latin America and the Caribbean countries and \$84 billion was owed by Sub-Saharan Africa. Total debt levels increased sharply to \$1,444 billion by 1990 and have increased further to \$2,171 billion in 1997.<sup>25</sup> In 1997 the total external debts of Latin America and the Caribbean amounted to \$678 billion whereas the debts of Sub-Saharan Africa were \$223 billion.

<sup>24</sup> Figures from Global Development Finance, 1997.

<sup>25</sup> 1997 are preliminary figures.

In terms of sustainability, table 2 shows that total external debt as a percentage of GNP (EDT/GNP) increased sharply between 1980 and 1990, especially for severely indebted low-income countries. Generally EDT/GNP ratios have fallen since 1990 although there have been increases for Europe and Central Asia.

Foreign debt service as a percentage of exports (TDS/XGS) increased from 1980 to 1990 for all developing countries generally, although moderately indebted middle income countries showed a decline. More recently, sustainability has tended to improve for all categories except for the severely indebted middle income countries. This was reflected also in Latin America and the Caribbean showing a decline.

In terms of the debt/GNP ratio, the most indebted geographical region is Sub-Saharan Africa but the position of all areas has deteriorated since 1980. A regional breakdown of the debt figures is also provided. For convenience the position of the heavily indebted poor countries is also shown at the bottom of the table.

## **F. Debt relief**

Debt relief can take a number of forms ranging from increasing the repayment period while not providing any financial concessions through to outright debt cancellation. The main forms by which debt relief are arranged are rescheduling, refinancing, buy back and debt cancellation. In short, concessional debt relief reduces debt in net present value terms whereas non-concessional debt relief does not. Concessional debt relief may be provided in the form of a lower rate of interest and/or some cancellation of the stock of debt. An outline of successive debt relief plans is set out in annex 1.

### **1. Debt rescheduling**

Under debt rescheduling, debt repayments are deferred. The debtor country pays interest on the amount rescheduled (unless the initial loan was interest free). This rescheduling may be on concessional or non-concessional terms and will usually form part of a multilateral package of debt rescheduling. Under *non-concessional rescheduling* the debtor is simply given more time to pay, in much the same way that the period for repaying a mortgage may be extended. Under such an arrangement the net present value of the debt is not reduced. With *concessional rescheduling* the net present value of the debt is reduced as a lower interest rate is renegotiated.

### **2. Debt refinancing**

Debt refinancing is where new money is provided as either a grant or a loan to a country in order that it can repay what it owes. This may or not be provided on concessional terms.

### **3. Debt buy back**

Debt buy back is a form of debt relief whereby donors purchase all or part of a debtor country's outstanding commercial debt from its creditors at an agreed (reduced) settlement price.

### **4. Debt cancellation or debt forgiveness**

Debt cancellation or debt forgiveness is a specific and highly concessional form of debt relief. With cancellation the level of the official debt is reduced in net present value terms. With total debt cancellation, of course, all eligible debts are reduced to zero.

### **5. Debt default**

This is where a country fails to pay. The guidelines from DFID state that the UK policy is not to countenance this form of debt relief.<sup>26</sup>

## **B. The amount of debt relief**

The amount of money that has been involved in UK debt relief is set out in tables 3 and 4. Table 3 shows the UK sums involved in debt cancellation for each year from 1994/95 to 1996/97. For example, the UK cancelled £23.5 million of official sector debt in 1996/97, of which £11.6 million involved African debt. Table 4 shows the amount of other forms of debt relief that have been provided over the same three-year period. For example, in 1996/97 £12 million was re-organised on Toronto Terms, £7 million on Trinidad Terms and £8.7 million on Naples Terms, making a total of £27.8 million. When the sums involved with debt cancellation are added to these other forms of debt relief, the UK provided £51.3 million in the form of total debt relief in 1996/97. However, it should be pointed out that this figure is not necessarily the same figure as that which affects the Exchequer. The following section seeks to show to what extent debt cancellation affects the UK Exchequer and the PSNCR.

Providing debt forgiveness to the HIPCs is an international effort. Annex 5 shows the amount of debt forgiveness that has been provided to HIPCs by each creditor country from 1990 to 1994. The figures show that over the five years to 1994, \$10.8 billion has been forgiven. Germany, France and Italy have each forgiven considerably more bilateral debt than has the UK. In the three to 1997, official creditors in the Paris Club have forgiven in favour of the poorest countries US\$ 8 billion with more than US\$ 5 billion of that relief going to Africa.<sup>27</sup>

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<sup>26</sup> DfID Office Instructions vol. II:B.1

<sup>27</sup> Response to the Jubilee 2000 petition by the Presidency of the Group of 8 meeting in Birmingham

Table 3

**Debt Relief: Debt Cancellation**

£ thousand

	1994/95			1995/96			1996/97		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
<b>DEBT CANCELLATION</b>									
<b>Africa</b>									
Botswana	1,066	-	1,066	1,001	-	1,001	842	-	842
Egypt	1,226	61	1,287	1,226	44	1,271	1,240	28	1,268
Ethiopia	153	-	153	153	-	153	153	-	153
Gambia	173	-	173	168	-	168	112	-	112
Ghana	2,684	22	2,706	2,457	35	2,491	2,364	15	2,379
Ivory Coast	-	-	-	214	66	279	214	61	274
Kenya	1,703	89	1,792	1,198	44	1,242	630	15	645
Malawi	1,188	-	1,188	974	-	974	875	-	875
Mozambique	1,251	-	1,251	1,251	-	1,251	1,251	-	1,251
Senegal	56	11	67	56	10	66	56	9	65
Sierra Leone	161	-	161	114	-	114	73	-	73
Sudan	414	-	414	411	-	411	389	-	389
Zambia 2	3,191	546	3,737	3,111	484	3,595	2,858	423	3,281
East African Community	48	-	48	40	-	40	-	-	-
<b>Total Africa</b>	<b>13,315</b>	<b>728</b>	<b>14,043</b>	<b>12,374</b>	<b>682</b>	<b>13,056</b>	<b>11,056</b>	<b>549</b>	<b>11,606</b>
<b>America</b>									
Bolivia	162	-	162	92	-	92	151	-	151
Guyana 2	1,051	1,767	2,818	1,029	1,732	2,761	874	1,698	2,572
Honduras	280	-	280	280	-	280	280	-	280
Nicaragua	18	-	18	36	-	36	36	-	36
Peru	272	37	309	231	79	310	219	25	244
<b>Total America</b>	<b>1,782</b>	<b>1,805</b>	<b>3,587</b>	<b>1,668</b>	<b>1,811</b>	<b>3,479</b>	<b>1,560</b>	<b>1,724</b>	<b>3,284</b>
<b>Asia</b>									
Afghanistan	40	-	40	36	-	36	33	-	33
Bangladesh	885	-	885	885	-	885	763	-	763
Cambodia	9	-	9	-	-	-	-	-	-
Indonesia	2,114	-	2,114	1,954	-	1,954	1,411	-	1,411
Jordan	3,629	571	4,200	4,937	498	5,435	3,811	439	4,251
Nepal	59	-	59	-	-	-	-	-	-
Pakistan	2,432	-	2,432	1,954	-	1,954	1,794	-	1,794
Sri Lanka	764	-	764	526	-	526	350	-	350
<b>Total Asia</b>	<b>9,932</b>	<b>571</b>	<b>10,504</b>	<b>10,293</b>	<b>498</b>	<b>10,791</b>	<b>8,163</b>	<b>439</b>	<b>8,603</b>
<b>Pacific</b>									
<b>Total Pacific</b>	<b>11</b>	<b>-</b>	<b>11</b>	<b>11</b>	<b>-</b>	<b>11</b>	<b>11</b>	<b>-</b>	<b>11</b>
<b>TOTAL DEBT CANCELLATION</b>	<b>25,041</b>	<b>3,104</b>	<b>28,144</b>	<b>24,346</b>	<b>2,991</b>	<b>27,337</b>	<b>20,791</b>	<b>2,713</b>	<b>23,504</b>

Source: British Aid Statistics, 1992/93 to 1996/97

Table 4

**Debt Relief: Debt Rescheduling and Re-Organisation**

£ thousand

	1994/95			1995/96			1996/97		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
<b>DEBT RESCHEDULING</b>									
Total Africa	-	-	-	-	-	-	-	-	-
Total America	3,422	-	3,422	1,308	-	1,308	-	-	-
Total Asia	-	-	-	-	-	-	-	-	-
<b>TOTAL DEBT RESCHEDULING</b>	<b>3,422</b>	<b>-</b>	<b>3,422</b>	<b>1,308</b>	<b>-</b>	<b>1,308</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DEBT RE-ORGANISATION</b>									
<b>TORONTO TERMS</b>									
Total Africa	-	10,370	10,370	-	10,370	10,370	-	10,370	10,370
Total America	-	1,733	1,733	-	1,733	1,733	-	1,733	1,733
<b>TOTAL TORONTO TERMS</b>	<b>-</b>	<b>12,103</b>	<b>12,103</b>	<b>-</b>	<b>12,103</b>	<b>12,103</b>	<b>-</b>	<b>12,103</b>	<b>12,103</b>
<b>DEBT RE-ORGANISATION</b>									
<b>TRINIDAD TERMS</b>									
Africa									
Total Africa	-	4,280	4,280	-	6,980	6,980	-	6,740	6,740
Total America	-	210	210	-	390	390	-	360	360
Total Asia	-	6,720	6,720	-	-	-	-	-	-
<b>TOTAL TRINIDAD TERMS</b>	<b>-</b>	<b>11,210</b>	<b>11,210</b>	<b>-</b>	<b>7,370</b>	<b>7,370</b>	<b>-</b>	<b>7,100</b>	<b>7,100</b>
<b>DEBT RE-ORGANISATION</b>									
<b>NAPLES TERMS</b>									
Total Africa	-	-	-	-	8,010	8,010	-	8,650	8,650
Total America	-	-	-	-	26,980	26,980	-	-	-
<b>TOTAL NAPLES TERMS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,990</b>	<b>34,990</b>	<b>-</b>	<b>8,650</b>	<b>8,650</b>
<b>TOTAL UK DEBT RELIEF</b>	<b>28,463</b>	<b>26,417</b>	<b>54,880</b>	<b>25,654</b>	<b>57,454</b>	<b>83,108</b>	<b>20,791</b>	<b>30,566</b>	<b>51,357</b>
<b>(Including Debt Cancellation)</b>									
<b>of which:</b>									
<b>DFID Programme</b>	25,041	3,104	28,144	24,346	2,991	27,337	20,791	2,713	23,504
<b>Other Programmes</b>	3,422	23,313	26,735	1,308	54,463	55,771	0	27,853	27,853

Source: British Aid Statistics, 1992/93 to 1996/97



## IV The Effect of Debt Cancellation on the UK Exchequer

As noted above, the campaign to cancel the unpayable debts of the poorest countries has attracted a great deal of support over recent years. What has received less attention, however, is the likely effect that such debt cancellation would have on UK public finances. This section considers the effect of debt cancellation on the UK Exchequer and the public sector net cash requirement (PSNCR) specifically.<sup>28</sup> The analysis is restricted to cancelling the debts owed by certain HIPCs to the UK government.

The official approach towards debt cancellation is currently focused on the 41 developing countries that have been officially classified as HIPCs. Figures of indebtedness for some countries are very unreliable, not least because some debtors and creditors disagree on the precise sums involved.<sup>29</sup> However, in broad terms the total external debt of the HIPCs at the end of 1996 was \$235 billion.<sup>30</sup>

The total debt owed to the UK government at the end of 1997, by all low income countries (excluding Eastern European countries and the countries of the former Soviet Union), as listed in the World Bank Book *Global Development Finance*, is £4.71 billion. Of this the ECGD is owed £4.69 billion (99.6%) and the rest is owed to DFID.<sup>31</sup> In total, DFID is owed \$272 million (£167 million) by all developing countries.

According to the Treasury, the HIPCs, excluding the four countries where statistics are too unreliable, owe the ECGD around £1 billion and a very small sum to the DFID.<sup>32</sup> This paper concentrates on cancelling the outstanding debts of these HIPCs.

In general, the effect of debt relief, including debt cancellation, on the UK Exchequer will depend upon the type of debt that is forgiven and whether there are any offsetting transactions. The following summary sets out the main effects on the UK Exchequer.

- Cancelling truly unpayable debt has no further effect on the public finances since the cost to the Exchequer has already been incurred. In this sense, cancelling unpayable debt is a cost-free option. However, trying to determine whether a debt is unpayable or not is ultimately arbitrary. In order to provide a range of the likely Exchequer costs, this paper sets out various assumptions on the proportion of debts that are truly unpayable.

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<sup>28</sup> Formerly known as the public sector borrowing requirement but renamed following publication of the *Comprehensive Spending Review*.

<sup>29</sup> For example, the debt figures for Nigeria, Liberia, Sudan and Somalia are so unreliable that no assessment is made. See evidence to International Development Committee, 17 February 1998.

<sup>30</sup> *Global Development Finance*, 1998.

<sup>31</sup> HC Deb 12 March 1998 c307W. Also see Evidence to the International Development Committee, para. 6. The figures provided by Jubilee 2000 Coalition for 56 countries estimate that the UK is owed £4.3 billion (of which some £2.3 bn is owed by Nigeria alone).

<sup>32</sup> Figures supplied by the ECGD. See Table 6

- Cancelling DFID aid debt could potentially involve some direct cost to UK public expenditure totals and consequently the PSNCR as the aid loans are effectively converted into grants. However, according to DFID guidelines the costs of any debt relief are met from within either the individual country aid programmes or the UK aid programme as a whole.<sup>33</sup> In short, the effect on public spending of cancelling payable DFID aid-debt is neutralised by DFID absorbing the cost of debt cancellation from within the agreed DFID budget. In other words, cancellation of DFID aid debt is treated as another way of delivering overseas aid to recipients.
- Cancelling unpayable debt owed to the ECGD has no effect on the Exchequer and the public sector net cash requirement since the cash flow between the ECGD and the Exchequer is unaffected. However, if payable debt is cancelled, the future stream of principal and interest payments are also cancelled. Thus reducing government receipts and increasing the PSNCR in the future.
- Cancelling multilateral debt, payable or unpayable, involves no direct public expenditure cost in the UK since the international financial institutions (e.g. the World Bank) carry the costs. If, say, the World Bank should require a capital replenishment, then there is a potential marginal cost to the UK Exchequer of financing the replenishment.

The following section deals with each category of debt in turn.

## **A. Cancellation of DFID aid debt**

As at the 31 December 1997 a total of £167 million was outstanding in the form of loans agreed under bilateral arrangements between DFID and all indebted developing countries. DFID has outstanding claims against 24 countries.<sup>34</sup> Of this total, Jamaica (£47.4 million), Turkey (£34 million), India (£13.6 million) and Ecuador (£12.4 million) accounted for the largest amounts.<sup>35</sup> Some £27.6 million is owed by five countries classified as moderately and severely indebted low-income countries.<sup>36</sup> The relatively small amounts involved in outstanding DFID debt to heavily indebted poor countries reflects the fact that assistance to such countries has primarily been in the form of grants and where loans had previously been provided, many have been cancelled as they fell due.

When DFID cancels aid debt it is effectively converting an outstanding loan into a grant. The appropriate treatment therefore is to record a repayment of the outstanding loan while making a grant to the debtor country leaving the DFID's budget (Departmental

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<sup>33</sup> Office Instructions volume II:B1

<sup>34</sup> HC Deb 5 May 1998 c.339W

<sup>35</sup> *ibid.*

<sup>36</sup> HC Deb 23 June 1998 cc 453-4W. The five countries are: Cameroon (£67,000), India (£13,643,000), Liberia (£78,000), Nigeria (£4,929,000) and Zimbabwe (£13,510,000).

Expenditure Limit - DEL) unaffected. However, the interest payments that are foregone on the debt will score as part of the DFID's budget, which other things being equal, would increase the PSNCR. However, DFID guidelines indicate that cancellation of debt as a form of relief is a charge on the aid programme as a whole rather than individual country programmes.<sup>37</sup> Therefore when the UK provides forgiveness on its DFID aid-debt the guidelines require other development assistance to be reduced accordingly, leaving the level of the UK aid programme and the UK public spending totals unchanged. In short, cancellation of DFID debt is treated as another way of delivering the same level of aid.

Over the years, some DFID aid debt has been forgiven as part of a concession known as Retrospective Terms Adjustment (RTA). Under this form of debt forgiveness, loan repayments (both interest and principal) are cancelled as they become due. RTA is a concession, which is available only to the poorest countries.<sup>38</sup> This was introduced following a Resolution passed by the United Nations Conference on Trade and Development (UNCTAD) in 1978. This called for the adjustment of past terms of aid to bring them in line with the softer terms then being offered. In the case of UK loans, 32 countries have benefited from RTA or similar debt cancellation arrangements since 1978, at a total cost of around £1,200 million.<sup>39</sup> The UK Government has announced plans to cancel the remaining £132 million of aid debts owed by middle income Commonwealth countries as quickly as possible provided certain conditions are met.<sup>40</sup>

In short, the cost of DFID debt relief, whether in the form of debt cancellation or other assistance, is absorbed within the UK's aid programme as a whole. Public spending totals and the PSNCR are unaffected by debt cancellation of DFID aid debt.<sup>41</sup>

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<sup>37</sup> See DFID's Office Instructions.

<sup>38</sup> Currently any country that is eligible for International Development Association (IDA) support. IDA is the highly concessional wing of the World Bank Group.

<sup>39</sup> *UK announces £132 million aid debt initiative to assist poorer Commonwealth Countries*, DFID press notice 38/97, date: 15 September 1997.

<sup>40</sup> *ibid.*

<sup>41</sup> According to DFID guidelines, if the debt relief is not provided in the form of debt cancellation but by means of concessional rates of interest being charged in rescheduling agreements, then the offsetting reductions will be made in the aid programme as a whole. These reductions are made to meet any net losses to the Consolidated Fund arising from the difference between the payments that would have been made and the rescheduled payments.

## B. ECGD debt

The majority of official UK claims on poor countries consist of debts from unpaid export credits, administered by the Export Credit Guarantee Department (ECGD). Before considering this in detail it is necessary to provide an outline of the trading operations of the ECGD.

### 1. Trading Operations of the ECGD

ECGD is an independent department under the responsibility of the Secretary of State for Trade and Industry. It is the vehicle through which the Secretary of State can encourage foreign trade by providing insurance and other facilities.<sup>42</sup>

To the non-specialist, the operations of the ECGD often seem very obscure. Annex 6 sets out some of the main features of ECGD trading activities and the effect they have on the accounts of the ECGD, the Exchequer and the PSNCR. In short, ECGD makes a risk assessment and provides an insurance facility to UK exporters for goods exported to foreign buyers, often public-sector organisations. An outline of the way that ECGD makes a risk assessment was given in a written answer.

(a) All ECGD's risk assessments are based on analysis of the economic and political factors which influence an individual country's ability and willingness to meet its external debt commitments. Any vulnerability to political risks, such as civil wars, coups, etc., is also taken into account. In the cases of Algeria, Egypt, Jordan, Kenya, and Venezuela the risk assessments made prior to the issue of the guarantees led us to take the view that these countries had the capacity and willingness to pay, and the decision was taken to issue the guarantees. However, despite best endeavours at judging the long-term risk some countries can still default on their commitments for reasons which are outside ECGD's control (for example unforeseen economic shocks such as oil price falls).

(b) ECGD considers a wide variety of country information and risk assessments from other relevant agencies such as the International Monetary Fund, The World Bank, and Export Credit Agencies. Information from these agencies helps to inform ECGD's own assessment of the economic and political risks.<sup>43</sup>

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<sup>42</sup> The ECGD is governed by the *Export and Investment Guarantee Act 1991*. Essentially this legislation updated the *Export Guarantees and Overseas Investment Act 1978* and facilitated the privatisation of the Insurance Services Division of ECGD. The *Export and Investment Guarantee Act 1991* restated the powers in the 1978 Act and, amongst other things, introduced new powers to allow the Secretary of State to undertake transactions for the more effective financial management of the ECGD's assets and liabilities.

<sup>43</sup> HC Deb 14 May c187-188W

In the event of a foreign buyer not paying, the ECGD compensates the UK exporter and receives a claim on the government of the debtor country.<sup>44</sup> It is a mistake to describe these claims as loans to developing countries. Any surplus made in the course of the ECGD's trading activities is passed to the Exchequer in the form of government receipts and has the effect of reducing the PSNCR. The ECGD's trading surplus is recorded within the gross trading surplus item of government current receipts.<sup>45</sup>

Payment of claims by the ECGD to the UK exporter will, all other things being equal, increase the PSNCR.<sup>46</sup> On the other hand, when the ECGD receives premium income and recovers some debt these flows, all other things being equal, increase government receipts and reduce the PSNCR. In terms of debt interest and payment of principal, the ECGD expects to receive about \$60 million from 37 HIPCs for 1997/98.<sup>47</sup>

The payment of claims under ECGD guarantees is financed by Parliamentary Vote. The ECGD's contribution to the Exchequer is given in the ECGD's Annual Account.<sup>48</sup> The 1996/97 annual report shows that via net payments on Vote 7 and Vote 9 of the DTI Vote, the ECGD contributed £450 million to the Exchequer.<sup>49</sup> The size of the ECGD's contribution to the Exchequer is dependent on a number of items, including premium income and recoveries.

As a result of its normal trading activities, especially in the wake of the third world debt crisis, the ECGD has accumulated a portfolio of sovereign debt<sup>50</sup> and a large deficit with the Consolidated Fund.<sup>51</sup> However, it should be noted that the accumulated deficit with the Consolidated Fund is not considered as an asset within the public finances and is perhaps more accurately viewed as a form of performance measure peculiar to the ECGD.

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<sup>44</sup> If the foreign buyer was a government or government body then the claim falls onto the foreign government directly. However, some foreign buyers were private but were unable to pay because the central bank could not provide any foreign currency. (i.e. transfer problem). Under these circumstances, the claim also becomes a claim against the foreign government.

<sup>45</sup> See for example Table B23: Public sector transactions by sub-sector and economic category, FSBR, HC620, March 1998

<sup>46</sup> A lower trading surplus reduces government income and increases the PSNCR.

<sup>47</sup> ECGD oral evidence to International Development Committee, 17 February 1998

<sup>48</sup> Annual Accounts 1996/97, (Reconciliation with the Votes (Class IV, Vote 7 and 9,) page 44, HC 245, 1997-98.

<sup>49</sup> £470.3 m plus minus £20.9 =£449.4m for year ended 1996/97).

<sup>50</sup> Sovereign debt refers to the amount owed by the government or government body in the indebted country.

<sup>51</sup> In short, debt is carried on the books of ECGD, which in turn borrows from the Consolidated Fund on which it owes and pays notional interest. Notional interest is charged or credited on the balance with the Consolidated Fund. The interest rate is agreed with the Treasury. The average interest rate for the year, as agreed with the Treasury, was 6.1%. Note 10 ECGD's annual accounts.

## **2. Repayments of Interest and Principal**

When the ECGD receives payments of interest and principal from the indebted countries, these sums have the effect of increasing UK government receipts and reducing the PSNCR.

Table 5 (overleaf) shows payments of interest and repayments that have been received by the ECGD from the 37 HIPCs under Paris Club negotiations. It is worth noting that some payments will include payment of arrears and should not be taken as a typical annual flow of interest and repayment. Arguably these figures provide a guide as to the effect that debt cancellation would have had on the UK Exchequer over recent years. For example, general government expenditure, which is expected to reach £326.4 billion in 1998-99 would have increased £20 million per year for each of the past 6 years if the UK had cancelled the outstanding debt of the 37 HIPCs. Although these annual costs would run for some years, they represent less than 0.01% of general government expenditure.

Table 5

**Amounts received by ECGD under Paris Club Arrangements  
1 April 1992 - 28 February 1998**

	1992/93	1993/94	1994/1995	1995/1996	1996/97	1997/1998	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Benin	321	125	334	280	79	187	1,326
Burkina Faso	368	86	195	139	127	68	983
Cameroon	375	-	45	62	228	1,193	1,903
Congo	-	-	468	-	-	220	688
Cote D'Ivoire	114	5	66	77	323	111	696
Ethiopia	-	69	123	311	383	437	1,323
Ghana	1,679	1,642	1,607	1,583	1,538	1,502	9,551
Guinea Rep	328	209	205	137	386	110	1,375
Kenya	-	-	6,002	3,576	6,505	7,958	24,041
Madagascar	-	-	-	-	-	371	371
Mali	937	-	2,346	269	660	262	4,474
Mauritania	-	632	81	-	78	413	1,204
<b>Mozambique</b>	<b>2,178</b>	<b>224</b>	<b>234</b>	<b>568</b>	<b>669</b>	<b>963</b>	<b>4,836</b>
Niger	-	-	-	-	76	-	76
Senegal	-	-	17	48	70	57	192
Sierra Leone	45	3	90	64	-	-	202
Tanzania	5,124	4,285	2,017	1,526	12,009	3,989	28,950
Togo	-	-	17	131	542	517	1,207
Uganda	-	333	438	224	1,560	574	3,129
Zambia	-	7,613	2,468	4,758	-	1,855	16,694
Bolivia	83	639	1,002	796	1,381	1,111	5,012
Costa Rica	107	589	-	1,101	373	401	2,571
Guyana	2,184	730	344	1,216	734	5,079	10,287
Nicaragua	-	134	81	80	59	103	457
Vietnam	-	-	650	775	690	772	2,893
Yemen	-	-	-	-	-	3,990	3,990
<b>TOTAL</b>	<b>13,843</b>	<b>17,318</b>	<b>18,836</b>	<b>17,721</b>	<b>28,470</b>	<b>32,243</b>	<b>128,431</b>

Source: ECGD, March 1998

### C. Cancellation of ECGD Debt<sup>52</sup>

Any agreement to cancel official debt owed to the ECGD is essentially a government to government agreement and not an ECGD responsibility. The Treasury takes the lead during the debt negotiations usually under the auspices of the Paris Club. The ECGD does not itself have the authority to simply cancel sovereign debt. However, because of their technical expertise, the ECGD is closely involved in the work along with the Treasury and DTI. The financial statements of the ECGD for 1996/97 state:

<sup>52</sup> The ECGD may also have some outstanding claims against private buyers in the indebted countries, but these are likely to be small amounts and are excluded from this analysis.

### Treatment of Forgiveness of Sovereign Debt

Ten concessional agreements were signed during 1996/97 with Burkina Faso, Egypt, Mali, Mozambique, Niger, Senegal, Togo, Yemen and Zambia, leading to the write-off of Unrecovered Claims to the value of £118.9 million and a reduction of Moratorium Interest totalling £15.2 m.

The ECGD seeks to maximise the recovery of outstanding debt, including sovereign debt. Under section 3(1) of *The Export and Investment Act 1991*, arrangements such as debt forgiveness can be made only in the interests of proper financial management of its portfolio.<sup>53</sup> For example, partial forgiveness could be justified on the grounds that it increased the likelihood that the remaining debt would be recovered. *The Export and Investment Guarantee Act 1991* states that the Secretary of State (DTI) may only exercise certain powers with the consent of the Treasury.

#### 1. Future Payments by HIPCs to ECGD

The ECGD has agreed payment schedules with its debtors. Figures supplied by the ECGD to the House of Commons Library show that the ECGD is due to receive £923 million between 1998 and 2031 in agreed payments from 26 HIPCs.<sup>54</sup> Four HIPCs which also have liabilities to the ECGD are excluded from these statistics owing to the unreliability of their statistics on indebtedness.<sup>55</sup> The figure of £923 million relates to payment of principal due and excludes debt interest. Details of the amounts that 26 HIPCs<sup>56</sup> have agreed to make to the ECGD between 1988 and 2031 are set out in table 6. The figures broadly represent the total amount of outstanding debt owed to the ECGD by the 26 HIPCs, although there may be small sums due after that date. Table 6 shows that, on the assumption of a rate of interest of 5% on the reducing balance, the indebted countries are also due to make interest payments of £460 million to the ECGD, making a total figure of £1,383 million.<sup>57</sup> The figures for interest payments are purely illustrative.

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<sup>53</sup> International Development Committee, Third Report, HC 563, 1997-98, para. 27 and evidence, Q62

<sup>54</sup> The countries include: Angola, Benin, Bolivia, Burkina Faso, Cameroon, Central African Republic, Congo, Cote d'Ivoire, Ethiopia, Ghana, Guyana, Kenya, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Sierra Leone, Tanzania, Togo, Uganda, Vietnam, Republic of Yemen, Zaire, and Zambia.

<sup>55</sup> These countries are Nigeria, Liberia, Sudan and Somalia

<sup>56</sup> Not all HIPCs owe money to the ECGD. The group also crucially excludes Nigeria, Liberia, Sudan and Somalia, owing to unreliability of their figures

<sup>57</sup> Currently UK debtors pay a commercial rate of interest on their outstanding debts, about one half per cent above the London Inter-Bank Offered Rate (LIBOR). Short term forecasting of LIBOR is not an easy task and it is unrealistic to try to forecast LIBOR over the period to 2031. However, for illustrative purposes, an annual rate of 5% would increase the debt by £460 million. This figure is provided for illustrative purposes only since the actual rate of interest on the different amounts is unknown.



Table 6  
**Future Payments (1998-2031) Due to the ECGD by 26 HIPCs**  
**Current prices, £ million**

Financial Year	Principal Payments Due	Interest Payments Due (a)	Total Debt Service Due
1998	57.5	46.2	103.7
1999	88.1	43.3	131.4
2000	82.8	38.9	121.7
2001	78.9	34.7	113.6
2002	73.2	30.8	104.0
2003	67.5	27.1	94.6
2004	56.6	23.8	80.4
2005	27.8	20.9	48.7
2006	23.8	19.5	43.3
2007	20.3	18.3	38.6
2008	20.7	17.3	38.0
2009	22.1	16.3	38.4
2010	18.0	15.2	33.2
2011	18.4	14.3	32.7
2012	21.6	13.4	35.0
2013	24.1	12.3	36.4
2014	26.9	11.1	38.0
2015	29.7	9.7	39.4
2016	29.8	8.3	38.1
2017	24.0	6.8	30.8
2018	22.1	5.6	27.7
2019	17.2	4.5	21.7
2020	11.0	3.6	14.6
2021	6.7	3.1	9.8
2022	3.9	2.7	6.6
2023	4.3	2.5	6.8
2024	4.7	2.3	7.0
2025	5.2	2.1	7.3
2026	5.7	1.8	7.5
2027	6.3	1.5	7.8
2028	7.0	1.2	8.2
2029	7.7	0.9	8.6
2030	8.5	0.5	9.0
2031	1.0	0.0	1.1
<b>Total</b>	<b>923.1</b>	<b>460.4</b>	<b>1,383</b>
Memo			
1998-2031:			
<b>(Annual average)</b>	<b>28.0</b>	<b>14.0</b>	<b>41.9</b>

Notes:

(a) Assuming 5% per interest on a reducing balance.

Source: Derived from figures provided by ECGD, March 1998

## 2. Cancellation of ECGD Debt and its Effect on the UK Exchequer: An Illustration

The future payments that indebted countries are due to make to the ECGD provide a useful opportunity to illustrate the effect of debt cancellation on the UK Exchequer. The figures are presented simply to indicate the likely scale of the effect on the public purse and are not to be taken as being precisely accurate calculations. It is also important to note that this analysis covers the outstanding amounts of 26 HIPCs and not the full list of 52 countries identified by the Jubilee 2000 Coalition.

As noted above, the ECGD is due to receive just less than £1 billion in principal payments over the next 33 years, or £638 million in NPV based on a discount rate of 5%. These payments have estimated interest payments of £460 million, or £331 million NPV. Assuming that these debts are payable, then cancellation would lead to future government receipts being reduced by £1,383 million, or £969 million in NPV. Cancellation of any of the due payments of payable debt would represent a loss to the Exchequer of potential revenue leading to a higher PSNCR than would otherwise be the case. However, a more realistic view is that at least some of the due payments are truly unpayable and will be subject to traditional debt relief. When this more realistic approach is taken, the cost to the Exchequer of a policy of total debt cancellation would amount to only the residual (payable) debt that would have been repaid but for the programme of total debt cancellation. Although a simple point, it is often worth noting that the greater the proportion of unpayable debt, the smaller the true cost to the Exchequer of a programme of total debt cancellation.

The analysis in this Paper shows that the Exchequer cost of total debt cancellation on the debts to the ECGD owed by the 26 HIPCs will have a considerably smaller effect on the Exchequer than is perhaps implied by headline figures on the level of third world indebtedness.

Table 7 below summarises the position and shows that cancelling the entire outstanding amounts of principal due to the ECGD from the 26 HIPCs could cost the Exchequer less than £30 million per year in current prices (£19 million NPV), even assuming no unpayable debts.<sup>58</sup> In other words, if the outstanding amounts of principal are repayable, but are nevertheless cancelled, then the UK Exchequer forgoes future receipts amounting to £30 million per year in current prices (£19 million NPV). If, on the other hand, it is assumed that 80% of the outstanding amount of principal payments is truly unpayable, and therefore already lost forever, the Exchequer cost of cancelling the remaining (payable) debts to the ECGD from the 26 HIPCs would be equivalent to cancelling the value of only the residual 20% of due payments. The scale of this loss to the Exchequer

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<sup>58</sup> See line 1, annual Exchequer cost is £28 million.

would be in the region of £185 million (£128 million NPV), giving an annual Exchequer cost of only £6 million in current prices (£4 million NPV).<sup>59</sup>

**Table 7**  
**Debt Cancellation 1998 to 2031**

(£ millions)

Memo:

Amounts Due to the ECGD: 923 Current Prices

638 NPV

	Value of Traditional Debt Relief NPV	Value of Residual Debt NPV	Value of Residual Debt Current Prices	Annual Exchequer Cost (a)	
				After Traditional Relief NPV	After Traditional Relief Current prices
Line 1 At 0% reduction of NPV	0	638	923	19	28
Line 2 At 33% reduction of NPV	211	427	618	13	19
Line 3 At 50% reduction of NPV	319	319	462	10	14
Line 4 At 67% reduction of NPV	427	211	305	6	9
Line 5 At 80% reduction of NPV	510	128	185	4	6

(a) Cost divided by 33 years.

Source: Calculated from figures from ECGD

Clearly when set against the size of the general government expenditure the effect on the Exchequer of cancelling the sums owed to the ECGD by the 26 HIPCs seems fairly insignificant and easily manageable.

Table 8 overleaf expresses in current prices and in net present value terms the amounts of principal due to the ECGD from 26 HIPCs over the next 33 years as a result of existing debt scheduling agreements. The amount of principal due between 1988 and 2031 is £923 million in current prices or £638 million in net present value, assuming a discount rate of 5%. Broadly, £638 million, which is equivalent to about one quarter of the annual DFID aid budget, would represent the net present cost of cancelling the due payments of principal to the ECGD if all debt were payable. However, this figure needs to be adjusted to take account of the likelihood that some of the debts are truly unpayable and will be subject to traditional forms of debt relief, possibly providing as much as an 80% reduction in the NPV of the stock of debt.

An explanatory note for table 8.

Some or all of this outstanding debt may be classified as unpayable and therefore cancelled under traditional debt relief. The table shows the debt repayments in current prices and in net present value terms using a simple discount rate of 5% per annum. In general, this means that at 5% rate of interest it would require an investment of £638 million to provide sufficient funds to repay the sum of £923 million over the period. Columns 3 to 6 show the amount of cancelled debt under different percentages of debt relief. For example, column 4 shows the reduction in payments assuming that 33% of payments are considered unpayable. Thus the stock of debt is reduced by £211 million over the period, leaving a residual debt of £427 million (NPV).

<sup>59</sup> See line 5, annual Exchequer cost is £6 million.

Table 8  
**Due Payments of Principal to the ECGD by 26 HIPCs**  
**Effect of Debt Cancellation (a)**

Year	Current Prices (£m) (1)	Net Present Value (b) (£m) (2)	Debt Cancellation: Principal			
			25% (£m) (3)	33% (£m) (4)	67% (£m) (5)	80% (£m) (6)
1998	57.5	57.5	14.4	19.0	38.5	46.0
1999	88.1	83.9	21.0	27.7	56.2	67.1
2000	82.8	75.1	18.8	24.8	50.3	60.1
2001	78.9	68.2	17.0	22.5	45.7	54.5
2002	73.2	60.2	15.1	19.9	40.3	48.2
2003	67.5	52.9	13.2	17.5	35.4	42.3
2004	56.6	42.2	10.6	13.9	28.3	33.8
2005	27.8	19.8	4.9	6.5	13.2	15.8
2006	23.8	16.1	4.0	5.3	10.8	12.9
2007	20.3	13.1	3.3	4.3	8.8	10.5
2008	20.7	12.7	3.2	4.2	8.5	10.2
2009	22.1	12.9	3.2	4.3	8.7	10.3
2010	18.0	10.0	2.5	3.3	6.7	8.0
2011	18.4	9.8	2.4	3.2	6.5	7.8
2012	21.6	10.9	2.7	3.6	7.3	8.7
2013	24.1	11.6	2.9	3.8	7.8	9.3
2014	26.9	12.3	3.1	4.1	8.3	9.9
2015	29.7	13.0	3.2	4.3	8.7	10.4
2016	29.8	12.4	3.1	4.1	8.3	9.9
2017	24.0	9.5	2.4	3.1	6.4	7.6
2018	22.1	8.3	2.1	2.7	5.6	6.7
2019	17.2	6.2	1.5	2.0	4.1	4.9
2020	11.0	3.8	0.9	1.2	2.5	3.0
2021	6.7	2.2	0.5	0.7	1.5	1.7
2022	3.9	1.2	0.3	0.4	0.8	1.0
2023	4.3	1.3	0.3	0.4	0.9	1.0
2024	4.7	1.3	0.3	0.4	0.9	1.1
2025	5.2	1.4	0.3	0.5	0.9	1.1
2026	5.7	1.5	0.4	0.5	1.0	1.2
2027	6.3	1.5	0.4	0.5	1.0	1.2
2028	7.0	1.6	0.4	0.5	1.1	1.3
2029	7.7	1.7	0.4	0.6	1.1	1.4
2030	8.5	1.8	0.4	0.6	1.2	1.4
2031	1.0	0.2	0.0	0.1	0.1	0.2
<b>Total Debt</b>	923	638	n/a	n/a	n/a	n/a
<b>Reduction of debt (NPV)</b>	n/a	n/a	159	211	427	510
<b>Residual Debt</b>	n/a	n/a	478	427	211	128

(a) Cancellation of interest payments are excluded.

(b) A discount rate of 5% is used for illustrative purposes.

As noted above, the cancellation of unpayable debt will have no cost to the Exchequer. The true Exchequer cost of a policy of cancelling all HIPC debt only involves the residual debt that is left after unpayable debts have been excluded. Some indebted countries may have unpayable debts of say 33% to 80% which in turn should be reflected in traditional debt cancellation. In short, the cost of granting total debt relief would amount to only the residual debt, which in these examples would be 67% or 20% of existing (NPV) debt respectively. Columns 3 to 6 show the amount of cancelled debt under different percentages of debt relief ranging from 25% to 80% debt relief. A range of possible levels of debt relief is provided, reflecting the uncertainty associated with this calculation.

A pessimistic outlook for the capacity of indebted countries to service their debts would suggest a relatively high percentage for unpayable debts, leaving a relatively small amount as residual debt. Under a policy of total debt cancellation, this residual (payable) debt would represent the Exchequer cost of debt cancellation. Therefore the more pessimistic the outlook for indebted countries, the lower the expected cost to the UK public purse of cancelling debt.

One feature to emerge about debt relief over the years is that indebted countries have required more debt relief, not less, compared to what was originally estimated. This suggests that in time unpayable debts may constitute a higher rather than a lower figure. Anyway, assuming that, on average, 33% of the stock of debt is truly unpayable and will eventually be cancelled under traditional forms of debt relief, then the figure for cancelling the residual debt is reduced by £211 million (NPV) to £427 million (NPV). If 80% of agreed repayments to the ECGD are truly unpayable, then the Exchequer cost of cancelling all agreed repayments from the 26 indebted countries would be the cost of cancelling only the residual (payable) debt of £128 million (NPV).

Of course, the effect that debt cancellation is likely to have on the UK public purse is only one factor to be taken into account when considering a policy of debt cancellation. Cancelling payable debt to the ECGD would probably require a change in the *Export and Investment Act 1991*. Under the legislation the ECGD's accounting officer is charged with maximising recoveries. It is difficult to see how this responsibility could be reconciled with a policy to cancel (residual) debt that has a reasonable chance of being repaid. The Exchequer cost of cancelling such debt could perhaps be met by Parliament giving approval to set up a special public spending programme for debt forgiveness. Without these changes in legislation, it is likely that any decision to forgive payable debt would require a written instruction from the Chancellor to the ECGD's accounting officer and would be challenged by the National Audit Office.

In addition, there may be a strong negotiating argument against cancelling debt unilaterally since any economic benefit may be captured by other less forgiving creditor countries and not used to improve the plight of the people of the HIPCs. Although the UK's negotiating hand may be strengthened morally, a comprehensive and unilateral cancellation of all bilateral debt may weaken the UK's bargaining power in other ways.

## D. Cancellation of Multilateral Debt

This section considers the effect that cancellation of multilateral debt is likely to have on the Exchequer.<sup>60</sup> In broad terms, debt cancellation of World Bank or International Monetary Fund debt would, in the first place, be met from the particular institution's own capital reserves. As a second order effect, the institution may require some additional funding in the form of a financial replenishment. Replenishment could be provided by means of a contribution from the shareholders, including the UK government, or perhaps financed in some novel way such as through the proceeds from gold sales held by International Financial Institutions (IFIs) themselves.<sup>61</sup> When financed in these ways there is no direct effect on public spending or the PSNCR since the transactions effectively involve exchanging assets.<sup>62</sup> Such contributions to the IFIs would not score as public expenditure in the UK but would form part of the UK's reserves. The UK receives interest on its contribution to the IFIs. If this interest rate equals the UK gilt rate then there is no cost to the PSNCR. Any difference in interest rates would score against the PSNCR. However, these could be offset over the long term by exchange rate movements, leaving no overall cost to the UK public finances. Of course, the actual effect would depend upon the relative interest rates prevailing at the time.<sup>63</sup> In short, the cost to the UK Exchequer of lending to the IFIs, perhaps to finance debt relief, would be the difference in cost between issuing gilt-edged securities and the interest received by the UK on its funds to the IFIs.

Only a small proportion of the capital provided to IFIs is actually paid in by members. In the case of the World Bank, it funds the bulk of its lending by borrowing in the international capital markets. The rest of the Bank's capital is on call, if necessary, to meet the Bank's obligations. No calls on this portion of the capital have ever been made. In the event of a loss, which could not be covered by its reserves, the Bank would draw on the callable or unpaid proportion of its capital. The UK is potentially liable up to the amount of its unpaid capital. Under Section 5(3) of the Overseas Development and Co-operation Act 1980 such a liability would be charged on the National Loans Fund with recourse to the Consolidated Fund. As a contingent liability, the UK's callable capital is

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<sup>60</sup> The details of the Heavily Indebted Poor Countries (HIPC) Initiative are described in Fourth Report of the Treasury Committee on the IMF, HC 68, 1996-97 and the International Development Committee, Third Report, HC 563, 1997-98.

<sup>61</sup> When Kenneth Clarke (the then Chancellor) proposed using the proceeds of gold sales to finance the acquisition of income earning assets to help relieve the debt burden of poor countries.

<sup>62</sup> Contributions to the capital of the World Bank are funded by its shareholders, the member governments. UK contributions are made under Section 4 of the Overseas Development and Co-operation Act 1980. This empowers the Secretary of State, with the approval of the Treasury, to make an Order (approved in draft by the House of Commons) authorising the increase.

<sup>63</sup> First Standing Committee on delegated Legislation, Helen Liddell, Economic Secretary, 17 June 1997 debating The IMF (Limit on Lending) Order, which relates to a new and exceptional line of credit to the IMF.

shown in the Supplementary Statements to the Consolidated Fund and National Loans Fund Accounts.<sup>64</sup>

In short, if the UK Government had to provide a loan to IFIs in the wake of some programme of cancellation of multilateral debt the loan not affect the government's previously published figures for UK public spending. Public spending would only be involved if the IFI drew down the loan and the Treasury guarantee given to the Bank of England was called upon in the event of some default on repayments. However, this thought to be unlikely.

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<sup>64</sup> Treasury Note to the Treasury & Civil Service Committee, Third Report, International Debt Strategy, HC 138, 1989-90

## V Recent Developments

### A. G8 Heads of Government Summit (Birmingham-May 1998)

Development agencies, especially Jubilee 2000 Coalition, have been campaigning in the run up to the Group 8 Summit for a substantially improved debt relief package. However, despite some moves in getting more countries involved in the HIPC initiative by the year 2000, the outcome of the summit fell somewhat below the expectations of the campaigners.

The G8 Birmingham Summit Communiqué<sup>65</sup> reported that The Heads of Government pledged themselves to, amongst other things, a shared international effort:

- to support the speedy and determined extension of debt relief to more countries, within the terms of the Heavily Indebted Poor Countries (HIPC) initiative agreed by the International Financial Institutions (IFIs) and Paris Club. We welcome the progress achieved with six countries already declared eligible for HIPC debt relief and a further two countries likely to be declared shortly. We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible, so that all can be in the process by the year 2000. We will work with the international institutions and other creditors to ensure that when they qualify, countries get the relief they need, including interim relief measures whenever necessary, to secure a lasting exit from their debt problems. We expect the World Bank to join the future financial effort to help the African Development Bank finance its contribution to the HIPC initiative;

to call on those countries who have not already done so to forgive aid-related bilateral debt or take comparable action for reforming least developed countries bilateral debt or take comparable action for reforming least developed countries;

And later, for post conflict countries, the Communiqué stated:

- we also agree on the need to consider ways for debt relief mechanisms, including the HIPC initiative where appropriate, to be used to release more and earlier resources for essential rehabilitation, particularly for those countries with arrears to the IFIs.

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<sup>65</sup> G8 Birmingham Summit Final Communiqué. 16 May 1998. An electronic of the Communiqué is available on the internet at <http://www.open.gov.uk/>



## B. Lambeth Conference (July 1998)

The burden of international debt was a major theme of the Lambeth conference in July 1998. A number of Bishops spoke about the moral duty to help countries blighted by external debt. The Chancellor attended the conference and gave a speech in which he paid tribute to the campaign by church leaders to draw up a rescue plan for all the highly-indebted countries by the year 2000. He also said:

And it is to move this mountain of debt that, in response to the arguments and pleas of the churches, I believe our inescapable duty is to try to ensure by the year 2000 all highly indebted poor countries are embarked on a systematic process of debt reduction. Last year only one country had entered the process. Now there are six, most recently including Mozambique, with £3 billion of debt relief pledged.

For the fourteen others with still with no place at the table - it is urgent that following the G7 we step up on our actions to systematically remove the barriers between them and the debt reduction measures that will help them. And I look to you to use your moral authority with governments all over the world to support the necessary action.

[.]

And at the IMF meetings in October we will ask that all possible means of financing debt reduction be considered.

[.]

And I want all donor countries to write off their aid loans to the poorest countries, something that the UK government has already done in its loans with over thirty of the world's poorest countries, a policy now extended to those poorer Commonwealth countries committed to poverty eradication.<sup>66</sup>

The president of the World Bank, James Wolfensohn, also addressed the Bishops. According to press report he felt it necessary to defend the Bank's work against criticism, especially that contained in a Christian Aid video that he said was "neither fair nor correct" in its claims that the World Bank was not doing enough to combat poverty. "The proportions of this problem are enormous. We are losing the battle," said Mr Wolfensohn.<sup>67</sup>

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<sup>66</sup> "Chancellor calls for international effort to reduce poor country debt". Speech to Lambeth Palace, Press release, 124/98, 29 July 1998

<sup>67</sup> "Poorest countries are enslaved by debt, says bishop," Daily Telegraph, 25 July 1998

## VI Conclusion

In general, the effect on the UK Exchequer of cancelling third world debt will depend upon the type of debt that is forgiven and whether there are any offsetting transactions. Overall there is no effect on public spending totals, the PSNCR or the UK Exchequer when unpayable debt on which there is no prospect of receiving interest or repayment of principal is cancelled. The adverse effect on UK public finances occurred when the debts were created. The Exchequer cost has already been paid: "bygones are bygones". Cancellation of debt that is being serviced or has a reasonable prospect of being serviced does represent a potential cost to the UK Exchequer since future government receipts will be lower (and the PSNCR higher) than would otherwise have been the case.

The analysis in this paper suggests that the costs to the Exchequer of cancelling outstanding sums owed by 26 HIPCs would be comparatively small.

Figures supplied by the ECGD to the House of Commons Library show that the ECGD is due to receive £923 million in agreed payments from 26 HIPCs<sup>68</sup> between 1998 and 2031. This paper estimates that cancelling the outstanding amounts due to the ECGD from these 26 HIPCs could cost the Exchequer less than £30 million per year in current prices (less than £20 million in net present value), even assuming no unpayable debts. If, on the other hand, 80% of the outstanding amount to the ECGD is considered truly unpayable, and lost forever, the Exchequer cost of cancelling all remaining (payable) debts to the ECGD from the 26 HIPCs would be equivalent to an average annual Exchequer cost of only £6 million in current prices (£4 million NPV). When set against the size of the PSNCR, these sums seem insignificant.

While debt forgiveness is not a panacea nor an end in itself, it is widely accepted that conditional debt forgiveness can be a vehicle for poverty reduction, especially if additional and sustainable flows of external finance are also forthcoming.

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<sup>68</sup> The list of countries is set out on page 19.

## Annex 1: Debt Relief Plans

The following section outlines the various approaches to providing some relief on official bilateral debt.

### A. Bilateral Official Debt

In the UK there are two main forms of bilateral official debt; aid debt which has been provided by DFID and debt that represents an outstanding claim held by the ECGD. The vast majority of bilateral debt with HIPCs relates to outstanding claims held by the ECGD. DFID assistance is generally provided in the form of grants and what aid debt there was has generally been forgiven over the years as it fell due.

In terms of debt relief, there are a number of ways in which debtor countries have in the past been able to gain some relief from the burden of their bilateral official debts. For example, some relief has been provided by *refinancing* which, as noted above, means that new money is provided as either a grant or a loan to a country in order that it can repay what is owed. A debtor may also benefit from *rescheduling* whereby more time is given to pay. **Under non-concessional** rescheduling, the debtor is given more time to pay but the net present value of debt is not reduced. Rescheduling is usually part of a multilateral package of debt relief that is agreed with other government creditors through the so-called Paris Club.

Official bilateral debts are **re-organised** in the Paris club of official bilateral creditors. The Paris Club has devised a number of arrangements for reducing and rescheduling the debt of the poorest, most indebted countries. The different approaches are outlined below.

#### 1. Toronto Terms

The Toronto Terms, which were adopted in 1988 following the Toronto (G7) summit, allow eligible countries to receive a reduction of 33 per cent in their payments due over the agreed consolidation period (usually an IMF programme). The remainder is rescheduled at a commercial interest rate over 25 years.

#### 2. Trinidad Terms/ London Terms

In 1990, John Major proposed that all countries eligible for Toronto Terms and with a proven record with the IMF, could have their stock of Paris Club debt reduced by 67%. In December 1991, the Paris Club creditors adopted a modified form of these proposals. **Debt relief on payments falling due over the agreed consolidation period would be increased to 50 per cent**, with a commitment made by creditors to consider action on the whole of the stock of a country's debt after a period of three to four years. This would be subject to the debtor government achieving a good record of economic and financial responsibility. These terms are known officially as the **London Terms** but are also known as the **Modified Trinidad Terms** or **Enhanced Toronto Terms**. For example,

on 23 July 1992 Zambia was granted enhanced Toronto terms. The agreement was to run for 33 months with some \$793 million of debt to be consolidated.

### **3. Naples or Full Trinidad Terms**

The Paris Club agreed Naples Terms in July 1994 following the Naples (G7) Summit. Naples Terms superseded Trinidad Terms and provide up to 67% debt relief. They also introduced the option of a one-off reduction of 67% in the stock of official bilateral debt owed by the poorest, most indebted countries with an established track record of economic reform and debt servicing. Under the terms there was the possibility of **a 67% reduction in the stock of debt** for the eligible poorest, most indebted countries, that is, those that continually complied with IMF programmes and Paris Club agreements for three years. Countries with per capita income of \$500 or less or with a debt (in net present value terms) to export ratio of 350 per cent or more. These countries would be accorded a 67 percent reduction in debt or debt service.<sup>69</sup>

The aim of the rescheduling is to provide an exit from the unsustainable burden of external debt so that the debtor country is left with a manageable level of debt. The remaining eligible poorest, most indebted countries will be accorded a 50 per cent reduction. In February 1995 Uganda became the first country to be offered a 67 per cent reduction on the bulk of its eligible debt stock. Loans provided as part of official aid are rescheduled rather than reduced under Naples terms.<sup>70</sup>

In the Paris Club the UK has forgiven and rescheduled officially guaranteed export credits on Toronto, Trinidad and Naples terms.

### **4. Enhanced Naples Terms**

Under the Heavily Indebted Poor Countries Initiative (HIPCI), Paris Club members have agreed to increase the amount of debt relief to eligible countries to up to 80%.

### **5. Houston Terms**

Houston Terms apply to lower middle countries and do not involve any debt reduction as such. Eligible countries are provided with a more generous repayment period. Instead of a conventional 10-year repayment period, including a grace period of 5 years, the Houston Terms usually allow for a 15-year period, including a grace period of 8 years.<sup>71</sup>

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<sup>69</sup> World Debt Tables 1994-95, vol. 1, p5-6.

<sup>70</sup> Evidence from DFID to International Development Committee.

<sup>71</sup> More technical details are given in *World Debt Tables* volume 1.

## B. Multilateral Official Debt

### 1. Heavily Indebted Poor Countries (HIPC) Initiative

The process of devising debt relief mechanisms resulted in September 1996 in the establishment of an initiative to help heavily indebted poor countries (HIPCs) by reducing their debt burdens to sustainable levels; a level of debt they can afford to service. The HIPC Initiative extends to multilateral debt.

Around 20 poor countries stand to benefit from debt reduction under the initiative. Under the HIPC Initiative, countries are required to demonstrate over a period of years a track record of their ability to continue with economic reform supported by the IMF. Typically HIPC Initiative countries have to wait six years to get the relief that they need.

Uganda was the first country to benefit from the Initiative, receiving nominal debt relief of US\$ 650m, equivalent to about 20 per cent of Uganda's total debt, in addition to relief provided by the Paris Club. It is expected that a further 14 countries will require relief under the Initiative. If the target of three quarters of all eligible countries having confirmed completion points by 2000 is to be reached, this will require the agreement of completion points for a further nine countries over the next eighteen months. Mr Robin Fellgett, HM Treasury, described the targets as "the best sort of targets, in that they are achievable but not easily". The Government estimate that a total of 14 countries will have reached decision points by 2000. This means that one additional decision point is required for the target to be reached.<sup>72</sup>

The progress in implementing the HIPC initiative was outlined by the Chancellor in a written answer in July 1998:

As a result of the heavily indebted poor countries initiative, Uganda became the first country to receive a debt reduction - it will complete the process this month - - by \$347 million. Another five countries will have their debt reduced by \$3 billion as a result of the negotiations and of the decision points that have been reached. Another two countries are about to reach the decision point, and we are close to agreement on six other countries.

By the millennium, as a result of the Mauritius mandate, on which Government policy is based, we want all countries to become part of the debt reduction process. That will go hand in hand with the commitment of my right hon. Friend the Secretary of State for International Development to increase overseas aid and the proportion of our national income that is given in overseas aid.<sup>73</sup>

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<sup>72</sup> Third Report, International Development Committee, HC 563 1997-98 para.34

<sup>73</sup> HC 23 July 1998 c1251-1252

## **2. Mauritius Mandate**

In September 1997 Gordon Brown proposed at the Commonwealth finance ministers' meeting in Mauritius that the international community should work to deal with the debt problem once and for all. Under the plan, all eligible countries should be embarked on the process of securing the necessary debt relief by the year 2000 and, that by that date, at least three-quarters of the countries that required HIPC debt relief would have secured decisions on its size and terms.

So far, 25 of the 41 heavily indebted poor countries have embarked on the process of securing debt relief. In order for the Chancellor's target to be met, a further six must embark on the process before 2000.

## Annex 2

### The 41 Heavily Indebted Poor Countries (HIPC) (1996)

US\$ millions unless otherwise indicated

Country	Class	Total Debt Stocks (EDT)	Population (millions)	Net Present value of debt (NPV)	EDT per capita (\$)	NPV per capita (\$)	GNP per capita (\$)	EDT/ GNP %	GNP (a)	TDS (a)	XGS (a)	TDS/ XGS %	EDT/ XGS %
1 Angola	SILIC	10,612	11.1	8,943	956	806	311	307%	3,455	694	5,215	13%	203%
2 Benin	MILIC	1,594	5.6	1,056	285	189	387	74%	2,168	43	628	7%	254%
3 Bolivia	SIMIC	5,174	7.6	3,344	681	440	841	81%	6,395	413	1,334	31%	388%
4 Burkina Faso	MILIC	1,294	10.7	684	121	64	236	51%	2,527	49	448	11%	289%
5 Burundi	SILIC	1,127	6.4	536	176	84	175	100%	1,123	31	56	55%	2013%
6 Cameroon	SILIC	9,515	13.7	8,161	695	596	616	113%	8,437	528	2,338	23%	407%
7 Central African Republic	SILIC	928	3.3	511	281	155	315	89%	1,038	13	204	6%	455%
8 Chad	MILIC	997	6.6	503	151	76	172	88%	1,133	31	319	10%	313%
9 Congo Dem. Rep.(Zaire)	SILIC	12,826	45.2	11,636	284	257	134	212%	6,050	48	2,009	2%	638%
10 Congo. Rep	SILIC	5,240	2.7	4,405	1,941	1,631	696	279%	1,878	339	1,588	21%	330%
11 Cote d'Ivoire	SILIC	19,713	14.4	14,708	1,369	1,021	680	201%	9,795	1,347	2,521	53%	782%
12 Equatorial Guinea	SILIC	282	0.4	213	705	533	608	116%	243	2	180	1%	157%
13 Ethiopia	SILIC	405	58.2	7,997	7	137	102	7%	5,950	348	823	42%	49%
14 Ghana	SILIC	6,202	17.5	3,249	354	186	354	100%	6,203	471	1,728	27%	359%
15 Guinea	SILIC	3,240	6.8	2,153	476	317	557	86%	3,785	114	775	15%	418%
16 Guinea-Bissau	SILIC	937	1.1	617	852	561	242	352%	266	11	23	48%	4074%
17 Guyana	SILIC	1,631	0.8	1,150	1,942	1,369	789	246%	663	105	-	-	-
18 Honduras	SILIC	4,453	6.1	3,459	730	567	657	111%	4,006	564	1,960	29%	227%
19 Kenya	SILIC	6,893	27.4	5,130	252	187	327	77%	8,966	840	3,048	28%	226%
20 Lao PDR	MILIC	2,263	4.7	776	481	165	395	122%	1,857	29	466	6%	486%

Figures are for 1996 unless otherwise indicated

(a) GNP= Gross national Product, TDS=Total Debt Service, XGS=Exports of Goods and Service

Source: (1) (1) (2) (1) (1) (1) (3) (1) (1) (1) (1) (1)

(1) Global Development Finance, World Bank

(2) Trends in Developing Economies and World Bank Atlas, World Bank

(3) World Development Indicators, World Bank

US\$ millions unless otherwise indicated

## Annex 2

### The 41 Heavily Indebted Poor Countries (HIPC) (1996)

US\$ millions unless otherwise indicated

Country	Class	Total Debt Stocks (EDT)	Population (millions)	Net Present value of debt (NPV)	EDT per capita (\$)	NPV per capita (\$)	GNP per capita (\$)	EDT/ GNP %	GNP (a)	TDS (a)	XGS (a)	TDS/ XGS %	EDT/ XGS %
21 Liberia	SILIC	2,107	2.8	1,974	753	705	-	-	-	1	-	-	-
22 Madagascar	SILIC	4,175	13.7	3,191	305	233	291	105%	3,986	76	815	9%	512%
23 Mali	SILIC	3,020	10.0	1,251	302	125	260	116%	2,597	116	646	18%	467%
24 Mauritania	SILIC	1,818	2.3	1,588	790	690	451	175%	1,038	121	557	22%	326%
25 Mozambique	SILIC	5,842	18.0	5,565	325	309	86	379%	1,543	175	479	37%	1220%
26 Myanmar	SILIC	5,184	45.8	4,146	113	91	-	-	-	158	-	-	-
27 Nicaragua	SILIC	5,929	4.5	4,842	1,318	1,076	372	355%	1,672	221	913	24%	649%
28 Niger	SILIC	1,557	9.3	806	167	87	211	80%	1,958	57	327	17%	476%
29 Nigeria	SILIC	31,407	114.6	29,394	274	256	272	101%	31,125	2,509	15,669	16%	200%
30 Rwanda.	SILIC	1,034	6.7	513	154	77	197	79%	1,317	19	91	21%	1136%
31 Sao Tome & Principe	SILIC	261	0.1	141	1,864	1,007	293	637%	41	3	13	23%	2008%
32 Senegal	MILIC	3,663	8.5	2,384	431	280	591	73%	5,025	274	1,717	16%	213%
33 Sierra Leone	SILIC	1,167	4.6	661	254	144	200	127%	922	59	112	53%	1042%
34 Somalia	SILIC	2,643	9.8	2,225	270	227	-	-	-	4	-	-	-
35 Sudan	SILIC	16,972	27.3	15,640	622	573	-	-	-	48	961	5%	1766%
36 Tanzania	SILIC	7,412	30.5	5,561	243	182	187	130%	5,714	258	1,383	19%	536%
37 Togo	SILIC	1,463	4.3	936	340	218	323	105%	1,388	56	517	11%	283%
38 Uganda	SILIC	3,674	19.7	1,690	186	86	308	61%	6,069	150	250	60%	1470%
39 Vietnann	SILIC	26,764	75.4	24,234	355	321	310	115%	23,340	346	9,867	4%	271%
40 Yemen Rep.	SILIC	6,356	15.8	5,242	402	332	335	120%	5,288	84	3,591	2%	177%
41 Zambia	SILIC	7,113	9.2	5,078	773	552	358	216%	3,294	324	1,319	25%	539%
<b>Total</b>	-	<b>234,887</b>	<b>683</b>	<b>196,293</b>	<b>344</b>	<b>287</b>	-	-	-	-	-	-	-

Figures are for 1996 unless otherwise indicated

(a) GNP= Gross national Product, TDS=Total Debt Service, XGS=Exports of Goods and Service

Source: (1) (1) (2) (1) (1) (1) (3) (1) (1) (1) (1) (1)

(1) Global Development Finance, World Bank

(2) Trends in Developing Economies and World Bank Atlas, World Bank

(3) World Development Indicators, World Bank



### Annex 3

#### Additional Countries as identified by Jubilee 2000 Coalition

US\$ millions unless otherwise indicated

Country	Class	Total Debt		Present value of debt (NPV)	EDT per capita	NPV per capita	GNP per capita (\$)	EDT/ GNP %	GNP (a)	TDS (a)	XGS (a)	TDS/ XGS %	EDT/ XGS %
		Stocks (EDT)	Population (millions)										
Bangladesh	MILIC	16,083	121.7	8,681	132	71	261	51%	31,818	693	5,907	11.7%	272%
Cambodia	SILIC	2,111	10.3	1,509	205	147	303	68%	3,116	10	829	1.2%	255%
Gambia	MILIC	452	1.2	236	377	197				29	226	12.8%	200%
Haiti	MILIC	897	7.4	446	121	60	352	34%	2,607	27	192	14.1%	467%
Jamaica	SIMIC	4,041	2.6	3,638	1,554	1,399	1,648	94%	4,284	682	3,795	18.0%	106%
Malawi	SILIC	2,312	10.0	1,215	231	122	216	107%	2,157	89	425	20.9%	544%
Morocco	MIMIC	21,767	27.0	19,730	806	731	1,319	61%	35,609	3,174	11,445	27.7%	190%
Nepal	LILIC	2,413	22.0	1,155	110	53	206	53%	4,521	85	1,111	7.7%	217%
Peru	SIMIC	29,176	24.3	23,743	1,201	977	2,445	49%	59,406	2,932	8,280	35.4%	352%
Philippines	MIMIC	41,214	71.9	38,615	573	537	1,212	47%	87,136	5,778	42,249	13.7%	98%
Zimbabwe	MILIC	5,005	11.3	4,240	443	375	640	69%	7,227	664	3,126		160%
<b>Total</b>		<b>125,471</b>	<b>310</b>	<b>103,208</b>	<b>405</b>	<b>333</b>		<b>53%</b>	<b>237,881</b>	<b>14,163</b>	<b>77,585</b>	<b>18.3%</b>	<b>162%</b>

Figures are for 1996 unless otherwise indicated

(a) GNP= Gross national Product, TDS=Total Debt Service, XGS=Exports of Goods and Service

Source: (1) (1) (2) (1) (1) (1) (3) (4) (1) (1)

(1) Global Development Finance, World Bank

(2) Trends in Developing Economies and World Bank Atlas, World Bank

(3) World Development Indicators, World Bank

(4) The United Kingdom as Creditor to the World's Poor, Figures for 1996, A. Pettifor and K.Joyner, Debt Crisis Network

## Annex 4

The following countries have been identified by the World Bank as having an unsustainable debt burden:

*US\$ millions unless otherwise indicated*

Country	Class	Total Debt Stocks (EDT)	Population (millions)	Present value of debt (NPV)	EDT per capita	NPV per capita	GNP per capita (\$)	EDT/ GNP %	GNP	TDS	XGS	TDS/ XGS %	EDT/ XGS %
Burundi	SILIC	1,127	6.4	536	176	84	175	100%	1,123	31	56	55%	2013%
Guinea-Bissau	SILIC	937	1.1	617	852	561	242	352%	266	11	23	48%	4074%
Mozambique	SILIC	5,842	17.9	5,565	326	311	86	379%	1,543	175	479	37%	1220%
Nicaragua	SILIC	5,929	4.3	4,842	1,379	1,126	389	355%	1,672	221	913	24%	649%
Sao Tome & Principe	SILIC	261	0.1	141	2,008	1,085	315	637%	41	3	13	23%	2008%
Sudan	SILIC	16,972	27.4	15,640	619	571				48	961	5%	1766%
Zaire (DRC)	SILIC	12,826	43.9	11,636	292	265	138	212%	6,050	48	2,009	2%	638%
Zambia	SILIC	7,113	9.4	5,078	757	540	350	216%	3,294	324	1,319	25%	539%
<b>Total</b>		<b>51,007</b>	<b>111</b>	<b>44,055</b>	461	399				<b>861</b>	<b>5,773</b>	15%	884%
<b>Total (excluding a)</b>		<b>21,209</b>	<b>39</b>	<b>16,779</b>	541	428	202	267%	<b>7,939</b>	<b>765</b>	<b>2,803</b>	27%	757%

Notes:

(a) Owing to incomplete data, Sudan and Zaire/DRC are excluded from some of the totals.

\* Comparable GNP per capita - United Kingdom: \$18700; Unilled States: \$26980

\*\* ECGD figures Nov 1996; DFID figures Mar 1997; ECGID accounts for 95% of total owed

Source: *Global Development Finance*, p43

## Annex 5

### Debt forgiveness to Heavily Indebted Poor Countries, 1990-94

US\$ millions

Creditor countries	1990	1991	1992	1993	1994	1990-94
Australia	0	0	0	0	0	0
Austria	0	0	1	0	2	3
Belgium	0	2	33	6	0	41
Canada	512	0	0	184	5	701
Denmark	20	6	21	5	57	109
Finland	10	1	0	18	0	29
France	338	433	500	648	1,800	3,719
Germany	1,204	373	68	47	93	1,785
Ireland	0	0	0	0	0	0
Italy	0	0	0	370	14	384
Japan	37	67	106	166	311	687
Netherlands	64	74	41	66	77	322
New Zealand	0	0	0	0	0	0
Norway	0	12	47	13	7	79
Portugal	0	2	1	6	21	30
Spain	0	0	0	3	67	70
Sweden	28	6	8	20	15	77
Switzerland	0	133	42	33	30	238
United Kingdom	27	33	109	34	57	260
United States	130	1,967	56	56	65	2,274
<b>Total to Heavily Indebted Poor countries</b>	<b>2,368</b>	<b>3,111</b>	<b>1,031</b>	<b>1,675</b>	<b>2,620</b>	<b>10,805</b>
Total to all developing countries	10,528	8,911	3,004	2,701	3,336	28,480
<i>Share of heavily indebted poor countries (percent)</i>	<i>22.0</i>	<i>35.0</i>	<i>34.0</i>	<i>62.0</i>	<i>79.0</i>	<i>38</i>

Notes:

(a) Preliminary.

Source: OECD and World Bank staff estimates.