

ISSUE OBJECTIVES FOR THE 2002 G8 KANANASKIS SUMMIT

- Development -

1. Official Development Assistance (ODA)

Grants versus Loans

The June 15th finance ministers meeting in Halifax produced a resolution on the contentious issue of how much the World Bank's International Development Agency (IDA) aid should be in the form of Grants. The United States argued that grants should comprise 50% of the total aid distributed. The EU and Japan demanded a compromise because they believed that higher grant rates are unsustainable. Under previous arrangements, all repayments on the zero interest loans were returned to the IDA fund. Other critics, such as Oxfam¹, decried the overall decrease in development aid that the American plan would entail.

The finance ministers agreement (18-21% in grants²) is much higher than the present rate, 5%, but significantly lower than the 50% proposed by the United States. This will allow 22 billion dollars to be disbursed over the next three years. Countries where people survive on less than a dollar a day are expected to get nearly 100 percent of their aid in grant form. The G7 governments will now need to consult non- – G7 donor countries before this agreement is finalized.

The removal of this stumbling block may pave the way for an announcement of increased multilateral aid at the summit itself. The increase of the ratio of grants implies the need for increased IDA funding, above the 22 Billion that has presently been allocated, in order to sustain the IDA programs.

Other ODA Increases

Other programs may be announced that will increase the overall level of development aid. Leaked documents and government sources suggest that G-7 countries will support the World Bank's Education Action Plan at the summit³. The World Bank has estimated that the G-8 and other wealthy donor countries will need to commit about \$3 billion annually in additional foreign aid over the next 10 years to achieve the goal of universal primary education in the developing world by the year 2015⁴. The bank's educational initiative requires financial backing from every nation. The finance ministers meeting did not produce concrete pledges, like those made at the

¹ "We welcome the increase in grant funding and the fact that the US proposal, which would have cut overall aid, has been rejected," Justin Forsyth, head of policy at Oxfam, June 15, 2002.

² <http://www.g8.utoronto.ca/g7/finance/fm061502.htm>

³ "We also note the World Bank's Education Action Plan and strongly endorse the expeditious implementation of a plan focused on program quality and measurable results."

(<http://www.g8.utoronto.ca/g7/finance/fm061502.htm>)

⁴ AP, June 12

Monterrey Conference on Financing for Development. This raises the possibility that the actual monetary value of the G8's 'support' for the Education Action Plan will be revealed in Kananaskis. Some sources say the United States is extremely reluctant to commit to Education funding on a multilateral basis but an agreement may still be reached.

2. HIPC

Progress of the HIPC Initiative

The Halifax finance minister's meeting highlighted two aspects of the HIPC initiative that require attention. The first was the need to increase the participation of International Financial institutions and multilateral organizations in the program. Secondly, the HIPC trust fund still lacks financing and therefore donor countries will be asked to respond.

Before his exit from cabinet, Paul Martin called for a review of the HIPC program. He cited the higher-than-anticipated cost of ensuring that countries are sustainable when they get through the process as being problematic and the failure of some bilateral creditors to participate. Possibly he was referring to issues that are on the G8's agenda.

At the G8 in Okinawa, the communiqué encouraged the IMF to approve more HIPC countries for decision point status and we may see a similar statement this year. Presently only 26 of the world's poorest countries are benefiting from debt relief under the HIPC Initiative. By many accounts this program is moving slowly and many countries have not yet met the IMF's criteria for debt relief.

Prepared by: Jacob Young
University of Toronto G8 Research Group
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Endnotes:

Statement of G-7 Finance Ministers Halifax, June 15, 2002

Government of Canada G8 website

(<http://www.g8.gc.ca/menu-e.asp>)

G8 Communiqué Okinawa 2000, Kyushu-Okinawa

The Globe and Mail

Associated Press

Debt Relief under the Heavily Indebted Poor Countries (HIPC) Initiative: A Factsheet

(<http://www.imf.org/external/np/exr/facts/hipc.htm>)