G8 cancels debt of the world's poorest countries

Owen Dyer *London*

The world's richest countries will assume the debt burden of 18 of the world's poorest countries—about $40bn (£22bn; €33bn)—after a final agreement reached in London last weekend by finance ministers meeting ahead of next month's summit of the G8 (the world's most industrialised countries) in Scotland.

The deal will include all debts owed by the qualifying countries to the World Bank, the African Development Bank, and the International Monetary Fund. Fourteen of the countries included in the deal are African—Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The four others are in Latin America—Bolivia, Guyana, Honduras, and Nicaragua.

These countries had already qualified for debt restructuring under the World Bank's Heavily Indebted Poor Countries Initiative. Nine more African countries are also likely to qualify for debt cancellation under these terms in the next 18 months, followed by 11 more in the next few years. The total debt cancelled for all 38 countries will amount to about $55bn.

A statement issued over the weekend by the G8 finance ministers also set a goal of "universal access for AIDS treatment by 2010 and development of vaccines, including for HIV and malaria."

The cancelled payments will add up to about $1.5bn a year. The G8 members will themselves make up the shortfall to the lending institutions. Britain will give about $700m-900m to this end in the next decade, and the US will contribute approximately $1.5bn. New rules will be drawn up by the World Bank to ensure that future loans are not swallowed up by government corruption.

The announcement will be seen as a victory for Prime Minister Tony Blair, who was in Washington, DC, last week to push for a deal on African aid and debt. But he failed to secure an American commitment to match European governments' recent pledges to increase aid to 0.7% of gross national income by 2015.

Nevertheless, according to the UK's chancellor, Gordon Brown, the extra aid pledged by other countries is sufficient to meet the target, set by Mr Blair's Africa Commission, of immediately increasing aid to Africa by $25bn (*BMJ* 2005;330:622, 19 Mar). In addition to the European Union boosting its overseas development aid, Canada and Japan have promised to double their aid to Africa by 2008.

PFI deals need more scrutiny after shareholders receive big windfalls

Matthew Limb *London*

The National Audit Office has asked for a scrutiny of hospital deals secured under the private finance initiative (PFI) to see whether newer schemes are delivering better value for money than earlier ones as the PFI market matures. The review was suggested after an investigation by the office into the refinancing of an early PFI scheme, which gave private shareholders an £81m ($45m; €67m) windfall. The trust involved in the scheme, Norfolk and Norwich University Hospital NHS Trust, also benefited from the refinancing, but the office warned that it now faces increased risks and continues to "pay a premium" compared with more recent PFI deals with better terms.

The office reviewed the PFI deal after concerns were raised by the MP for North Norfolk, Norman Lamb (Liberal Democrat). It concluded that ministers should now analyse how the "pricing of all elements of PFI deals" have changed since the early years of the initiative.

The Norfolk and Norwich University Hospital opened in 2001 and was one of the first PFI schemes. A private sector consortium of banks and property developers, Octagon Healthcare, was contracted to build the hospital, maintain it, and manage the facilities for a minimum of 30 years. Under terms struck in 1998, the trust agreed to pay £42.7m a year in usage payments. The contract was a "pathfinder deal," which helped the Department of Health to establish a new market in PFI hospital procurement.

In 2003, Octagon refinanced the project in a climate of lower interest rates, making £115m from the refinancing. It shared £34m of this with the trust. The internal rate of return for shareholders rose from 16% to 60%.

The office's report reviewed the original PFI deal in the light of the refinancing. It said that the trust appeared to strike competitive terms at the outset, although it suggested that these might have been improved. The report proposed that alternative funding options could have been tested more rigorously, although the trust followed standard practice at the time. However, it acknowledged that by closing the PFI deal in 1998 the trust had benefited from getting the hospital open early and avoided years of building cost inflation.

Annual trust payments have fallen to £37.8m under the new financing arrangements but these will now be made over a longer period—39 years instead of 30 years. The trust would face higher liabilities if it terminated the contract early but it regards the financing as value for money, said the report.

Other early PFI deals may also yield windfalls for private companies. But the office said that current schemes strike better terms for the NHS in a "maturing" market, including the provision for a bigger share of proceeds from any subsequent refinancing.

The head of the National Audit Office, John Bourn, said, "The trust continues to pay a premium on its financing costs for being an early entrant into the PFI market while benefiting from the early use of the new hospital and lower construction costs."

Allyson Pollock, who is head of the public health policy unit at University College London, and an expert in PFI, told the *BMJ*, "This report shows how the public is getting a raw deal and our taxes are flowing into the coffers of private companies."

She called for a further inquiry by the House of Commons Treasury and Public Accounts Select Committees into the "true costs" of PFI. "The taxpayer is being left with a much higher burden of debt which they are going to have to service for a much longer period. So the real risks are sitting with the public sector for much, much longer," she said.

The report, *The Refinancing of the Norfolk & Norwich PFI Hospital: How the Deal can be Viewed in the Light of the Refinancing*, is available at www.nao.org.uk.

NATIONAL AUDIT OFFICE

The refinancing of the Norfolk and Norwich University Hospital NHS Trust (above) gave shareholders a windfall profit of £81m