

The Multilateral Debt Relief Initiative: **The good, the bad and the ugly**

“The change of heart by the international financial institutions on the possibility of 100% debt relief is a clear indication that, with political will and commitment, the global challenge of poverty eradication can be met.”

African Network on Debt and Development, April 2006

Introduction

In July 2005, the G8 – after massive global campaigner pressure – agreed to cancel some of the debts of some of the poorest countries in the world. With the last, and largest, element coming into effect on 1 July 2006, we can now see what this deal really means. Undeniably, it is extremely good news for some, releasing billions of dollars for some impoverished countries to spend on their own needs that would otherwise have been spent in debt payments to the rich world. It is bad news for others, particularly for those living in poor countries which are still burdened by huge debt payments but which are now being ignored by a rich world which is claiming that debt is ‘done’. And there are decidedly ugly aspects – such as the World Bank’s adjustments to save themselves \$5 billion, and the way that creditors still attach strings to debt cancellation, using it to force through often damaging and unpopular policies.

What was promised?

The deal is now known as the Multilateral Debt Relief Initiative, or MDRI. It will cancel all debts owed to the International Monetary Fund, to the concessional lending arm of the World Bank (the International Development Association, or IDA) and to the concessional lending arm of the African Development Bank (the African Development Fund), as of certain specified dates, for countries that complete the international debt relief scheme, the Heavily Indebted Poor Countries (HIPC) initiative.

Up until now, HIPC countries were getting cancellation of almost all of their bilateral debt (that is, debt owed to other individual governments) but far less cancellation

of multilateral debt (owed to lenders like the World Bank which are made up of many governments). So this focus on multilateral debt was welcome. However, it was disappointing to see the deal still limited to a small group of countries: countries that have already completed HIPC are getting this debt cancellation in 2006; others eligible for HIPC will get it if they finish the scheme; but many other poor and indebted countries are outside HIPC and will get nothing.

What has happened?

Throughout the first half of 2005, the G7 Finance Ministers were promising debt cancellation and in June 2005, they agreed the scope of a deal – cancellation of IMF, IDA and African Development Fund debts for HIPCs. In July, the G8 leaders endorsed this at their summit. But although the G8 includes the most powerful shareholders in these institutions, they are not the only shareholders. On the contrary, 184 countries are members of the IMF and World Bank, and 77 countries are members of the African Development Bank. The proposals still needed to be negotiated, discussed and agreed through the organisations’ own processes.

This gave plenty of scope for some countries, as well as some of the organisations’ staff, to object to parts of the deal or to try to limit its scope. After much negotiation – and continued campaigning – the IMF part of the deal was formally agreed in December 2005 and implemented on 6 January 2006. The African Development Fund part was agreed in April 2006, and is being backdated to 1 January 2006. The World Bank part was agreed in April 2006, and comes into effect on 1 July 2006.

How much are poor countries getting?

As of July 2006, the cancellation for 21 countries amounts to \$36 billion (around £20 billion). This breaks down as \$26.6 billion from the World Bank, \$3.4 billion from the IMF, and \$6 billion from the African Development Fund. But there are still another 21 countries that might qualify. If all of these make it through HIPC, then the total cancelled will be around \$50 billion (£28 billion), of which \$36 billion is from the World Bank, about \$6 billion from the IMF and \$8.5 billion from the African Development Fund.

These numbers give the total value of the debts being cancelled – but obviously debts are paid off over time, so a more realistic measure of the benefit for poor countries is their saving on debt service. That is, how much would poor countries have been paying out to creditors each year, that they can now spend on their own needs instead?

In total, the deal is expected to save the qualifying countries around \$1 billion between them next year (2007), rising perhaps to as much as \$1.7 billion by 2010, and then dropping off slightly from then. Overall, the benefit of the total \$50 billion cancellation will be felt over about 40 years – that is, the time over which the debts would otherwise have been paid – so on average the benefit is about \$1.25 billion a year.

To put these amounts in context: low-income country debt in total is around \$500 billion, and Jubilee Debt Campaign has estimated that low-income countries need debt cancellation that cuts debt service payments by at least \$10 billion a year now if they are to have any chance of meeting even the interim development targets set out in the Millennium Development Goals. Cancellation of \$50 billion releasing \$1 billion next year is therefore only around 10% of what is needed for the poorest countries.

This does not take into account poor middle-income countries, which also have severe debt burdens. The average yearly saving, \$1.25 billion, is a significant amount – enough to put 25 million children into school – but is equal only to the amount that the world's poorest countries altogether pay in debt service every 12 days. It is also equivalent to just 0.2% of what the rich world spends every year on defence.

Which countries are benefiting?

The countries which are benefiting straight away are: Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Because of the IMF's rules about how it implements the deal, Tajikistan and Cambodia – which are not HIPC countries – are also

getting cancellation, but only of IMF debts. This makes 21 countries in total, with a total population of 315 million people.

The countries that could benefit in the future are: Burundi, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Comoros, Côte D'Ivoire, Eritrea, Gambia, Guinea, Guinea Bissau, Haiti, Kyrgyzstan, Liberia, Malawi, Nepal, Sao Tomé and Príncipe, Sierra Leone, Somalia, Sudan and Togo. This makes another 21 countries, and includes another 225 million people.

However, the structure of the World Bank side of the deal means that the benefits are being spread – albeit rather thinly – over a larger group of countries. This is because the countries actually getting the debt cancellation will in effect pay for it themselves, out of reduced aid allocations, with the money committed by rich countries to cover the costs being shared instead among a bigger group of 67 poor countries. (The African Development Fund is using the same model, sharing funding for cancellation of, initially, 15 countries' debts among 40 countries.)

Whilst it is arguably good that more countries are benefiting, Jubilee Debt Campaign believes that all these 67 should be getting their debts cancelled – rather than sharing the money freed from cancellation of, at present, just 19 countries' debts. In fact, UK Chancellor Gordon Brown has said in 2006 that he believes that all 67 countries should get debt cancellation: we are looking to the UK to argue for this with other rich governments.

We are also concerned that the World Bank is allocating this money among the 67 according to its judgment of which countries are "good performers" – meaning that it can use the debt cancellation to reward those who follow IMF and World Bank policy models, and punish those that don't.

What debt is left?

A lot! The countries eligible but not yet qualifying will not get debt cancellation until they comply with all the undemocratic and often damaging conditions set out for them.

Then there is still all the debt of the countries that are not part of this deal. Many more countries have debts which should be considered unpayable (given their needs), or illegitimate (given how it was contracted). Illegitimate debts includes those from loans knowingly given to oppressive former regimes or for useless projects, for which the creditors are refusing to take responsibility and instead are demanding repayment at the expense of the poor.

Kenya, for instance, still owes around \$7 billion and in its 2005 budget had to allocate as much to debt service as to health, water, roads, agriculture, transport and finance combined. Most of **Indonesia's** debt was incurred by former dictators; its total external debt of \$140 billion cost the country \$31 billion in debt service payments in 2004. Its 2006 state budget allocates nearly a quarter of spending to debt service; this is nearly four times as much as health and education combined.

Even for countries that are benefiting now, there is still debt remaining. This includes:

- IMF and African Development Fund debts incurred after 2004.
- World Bank debts incurred after 2003 – the Bank saved itself \$5 billion by adapting the original G8 proposal to exclude debts from 2004.
- Debts to other multilateral lenders – this includes other continental and regional development banks. This is particularly significant for the Latin American countries, which obviously don't have any debt to the African Development Fund but have a lot to the Inter-American Development Bank.
- Bilateral debt – that is, debts to individual governments that haven't already been cancelled.
- Commercial debts – debts to private lenders such as banks.

How much is left depends on the individual debt profiles of the countries concerned. For some **African countries**, this deal has wiped off the majority of their external debt. Uganda, for instance, will get 80% of its debt cancelled through this deal, whilst Ghana, Tanzania and Zambia will all see around 75% of their debts wiped out. Of the African countries, Mozambique has the largest proportion of its debt left: around half remains, which is mostly made up of bilateral and private debt.

The four **Latin American countries** that qualify – Bolivia, Guyana, Honduras and Nicaragua – are having the smallest proportion of their debts cancelled: less than a third for each of them, and less than a quarter for Guyana and Nicaragua.

In terms of absolute numbers, the biggest beneficiaries are **Uganda** and **Tanzania**, for each of which the deal is cancelling between \$3.5 and \$4 billion. **Guyana** benefits the least with only \$343 million, little more than one fifth, of its debt being cancelled.

Where is the money going?

Until the World Bank and African Development Bank announce how they will distribute the extra donor money coming in under MDRI, it is hard for countries to make firm plans. However, some have started to do so, particularly for the IMF part of the deal. Resources freed

by debt cancellation are being directed towards poverty reduction, which in most cases means health, education and infrastructure.

Zambia, for instance, is increasing the proportion of its spending going towards health and education: in the 2006 budget, over a quarter of spending is going on education, and one fifth on health. The extra money includes spending on 4,500 new teachers, building and repairing schools, HIV / AIDS programmes, community healthcare provision, medical staff, and equipment and medicines. It has also been able to abolish fees for healthcare in rural areas, making a huge benefit for the poorest people, who have up to now been unable to afford to visit a doctor or nurse.

Tanzania is spending some of the money released by IMF cancellation on free or subsidised food for 3.7 million people who have been left hungry after a severe drought. It is also investing in long-term needs, using some of the funding to help improve the power supply in the country.

Ghana has announced that it is using the money from the IMF cancellation to improve rural infrastructure, specifically to repair roads in agricultural areas: this will make it easier for farmers to get their food out to markets. The rest of the money is earmarked for health and education.

What are the best parts of the deal?

The decision to cancel all World Bank and IMF debts for some countries – up to a certain date – is a hugely important step forward, and represents a fundamental shift in official approaches to debt cancellation.

Ten years ago, rich world politicians finally accepted the need for debt cancellation; but up to now they have always argued that only partial cancellation was needed, to bring debts down to a 'sustainable' level, where countries could carry on paying off debt. Campaigners kept arguing that justice demanded total cancellation, and that impoverished countries should not be paying anything to the rich world while their own needs were so extreme.

Now, the cancellation of 100% of even some countries' debts to some creditors, regardless of any calculation of 'sustainability', shows an acceptance of these arguments that previous levels of debt cancellation – and the definition of 'sustainable' debt – were woefully inadequate.

The practical implications of this for the benefiting countries are significant – as can be seen by the plans for increased spending on health, education and other crucial areas.

“While the cancellation of our debt has freed resources urgently needed to deal with the country’s pressing developmental needs, we remain concerned that, without the policy space to determine how we apply these resources, [...] the benefits to be accrued from the gesture will not reach the poor.”

Steve Manteaw, Integrated Social Development Centre, Ghana, June 2006

What are the worst parts of the deal?

Perhaps the biggest disappointment for campaigners was the linking of MDRI to the Heavily Indebted Poor Countries initiative, which has come in for sustained criticism over the years. This cancellation does deal with one of those criticisms – that HIPC offers too little – but leaves others unanswered. The major problems with the Multilateral Debt Relief Initiative are:

- It, like HIPC, includes too few countries. There should be debt cancellation for all countries with unpayable debts, not just for those that meet the arbitrary threshold for entry to HIPC. This threshold (having debts worth more than 150% of exports) is designed to maximise repayments to creditors, not to take account of what a country needs to spend on its own people’s development.
- It comes with undemocratic and damaging strings attached – countries have to go through HIPC, with all its unfair conditions, in order to qualify.
- It excludes important regional development banks such as the Inter-American Development Bank and the Asian Development Bank.
- It takes no account of the fact that many countries are paying off illegitimate debts – such as those on loans knowingly given to dictators, or for useless projects that only benefited companies in the lenders’ country.
- It is still completely designed, controlled, monitored and implemented by creditors, with little or no voice for people in poor countries who are experiencing the debt crisis.

All this means that while there has certainly been a step forward, there is still much further to go.

What impact did campaigners have?

Campaigners’ sustained and determined efforts over many years were absolutely crucial in securing this step. The UK government, which was active in leading efforts to secure this deal, recognised the role of campaigners. When first announcing the deal in June 2005, UK Chancellor Gordon Brown said that “Finance Ministers have had to act, knowing the eyes of the public are

upon us”. A senior official at the IMF stated in early 2006 that “we would not have had this debt initiative without the pressure of the Jubilee movement”.

But it was not only in securing the original agreement that campaigners played a vital role. They also kept pressure on throughout the negotiations over details, ensuring delivery and preventing excessive watering down of the proposals. In December 2005, for instance, IMF staff were proposing that six countries be excluded from immediate debt cancellation until they complied with further conditions. An international email campaign persuaded the IMF Executive Board to overrule this recommendation.

Up until April 2006, World Bank staff were proposing a method of implementing MDRI that would have meant countries facing a delay of up to 15 months between qualifying for debt cancellation and actually receiving it – and would have left them making non-refundable debt payments in the meantime. Again, campaigner pressure forced a rethink, meaning that countries now face a maximum delay of only 3 months before receiving cancellation. Commenting on the change, the senior UK official at the World Bank said that “your campaign was extremely important in securing that. A lot of emails were sent. People really noticed.”

This shows the important influence of campaigners, both in eliciting promises from politicians, and in ensuring those promises are put into effect.

What now?

Whilst MDRI is good news for Zambia, Ghana, Uganda and many other countries, poor countries as a whole are still paying more than \$100 million a day to the rich world, and – if they are to get debt relief – are still forced to implement unproven policies chosen for them by unaccountable outsiders. Millions of people are still suffering as the debt crisis drains their countries of resources, and policies imposed in order to get debt relief destroy their livelihoods. There must be full cancellation of all unpayable and unjust debts – without harmful strings attached – by fair, open means.



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Jubilee Debt Campaign works for full cancellation of unjust and unpayable poor country debts, by fair and transparent means. It is a coalition of over 70 national organisations and 100 local and regional groups, as well as thousands of individuals nationwide.

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