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Debt Relief and the Millennium Development Goals

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1. INTRODUCTION

In the late 1990s the Jubilee 2000 campaign drew international public attention to the ongoing developing country debt crisis. In a worldwide campaign, which mobilised a petition of 24 million signatures, civil society organisations succeeded in placing the debt issue firmly on the international agenda. G7 leaders committed themselves to cancelling more than \$110bn of the debt of the 42 heavily indebted poor countries (HIPC). World Bank and IMF officials scurried to get as many countries as possible onto the debt relief path by the dawn of the new millennium.

Since the year 2000, however, momentum has waned, overoptimistic assumptions have minimised the relief on offer, and creditors have dragged their feet on funding. As a result the HIPC initiative is failing to offer meaningful relief to heavily indebted nations or to restore them to viability. To date, only 6 countries have received any substantial write-off of debt under the initiative; almost a third of eligible countries are yet to see any benefit at all from HIPC. The majority of countries will not see sufficient debt relief at so-called 'Completion Point' to bring down their debts to sustainable levels, even according to the HIPC criteria. Furthermore, in order to qualify for HIPC relief, countries are being forced to adopt IMF economic conditionalities – which have failed to generate growth and stability, largely because their implicit purpose is to facilitate the transfer of assets from debtors to creditors. By effectively prioritising the interests of international creditors over those of debtor nations, the architects of HIPC (who are also creditors) have failed to return countries to sustainability. For many, therefore, HIPC is a failure.

The corollary of the widespread disillusionment with the HIPC initiative is that politicians, policy makers and campaigners are starting to call for a debt relief approach which focuses more keenly on human development – or, to be more specific, on the Millennium Development Goals (MDGs.) For them, unproductive debt repayments are pernicious because they divert resources away from spending on the key areas needed to meet the MDGs – health, education, water and sanitation, rural development – and into the coffers of northern creditors. The evidence on the link between indebtedness and poor human development is clear – the poorest countries on earth, often with appalling human development indicators, are also those which are the most indebted. In other words, countries with the least to spare are those facing the heftiest debt service bill.

Until recently, support for the 'human development' approach to debt sustainability was restricted to a narrow group of northern NGOs¹. But over the past year these calls have turned into a veritable drumbeat around the world. In the much vaunted 'New Partnership for Africa's Development' (NEPAD), launched in October 2001, African leaders argued that 'the long term objective of NEPAD is to link debt relief with costed poverty reduction outcomes².' The Monterrey Consensus, agreed at the UN Financing for Development Conference in March 2002, recommended that 'future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration.' Calls have also come from creditor countries such as Ireland, larger developing countries within the Group of 24, and, of course, from HIPC Ministers themselves, who recently

¹ For example: CAFOD 'The Human Development Approach to Debt Sustainability Analysis for the World's Poorest' CAFOD Policy Paper; 'Cancelling Debt to Promote Development' Paper by Joseph Hanlon, Policy Advisor to the Jubilee 2000 Coalition; Eurodad: 'Putting Poverty Reduction First: Why a poverty approach to debt sustainability must be adopted' October 2001.

² New Partnership for Africa's Development (NEPAD), October 2001, pp.37-38

issued a statement lamenting the fact that ‘there continues to be no systematic analysis of the contribution that HIPC relief is making to the Millennium Development Goals³.’

The aim of this paper is to look more closely at the scale of the debt problem and its interaction with the Millennium Development Goals. How big is the debt problem, and does it really matter in terms of meeting the MDGs? What is already being done in terms of debt relief and is it enough? Can debt relief really make a difference? And if we did link debt relief to the MDGs, how would this actually work in practice? Finally, what shape would an alternative framework for resolving debt crises take? These are all questions that the paper aims to address.

2. HOW LARGE IS THE DEBT PROBLEM?

While the debt crisis experienced by low income countries only became a popular campaigning issue in the North in the late 1990s, sovereign over-indebtedness is by no means a new phenomenon. Even the latest build up of unsustainable debts and the accompanying crisis has its origins in the early 1970s.

As Chart 1 shows, in 1970, developing countries as a whole owed only \$72.7bn to the rest of the world, or less than 10% of their collective GDP. By 2000, this figure had skyrocketed to \$2,527.5bn, or 37% of GDP, a thirty-five fold increase. Sub-Saharan Africa, although a relatively minor debtor in absolute terms, owing roughly \$206bn in 2000, is by far the biggest debtor in GDP terms. In 1970, Sub-Saharan Africa owed less than 12% of her income; by 1998, this figure was almost 75%, although by 2000 – once the effects of debt relief were starting to be felt – this figure had reduced slightly to 66%.

In absolute terms, the largest debtor region is Latin America and the Caribbean, whose total debt in 2000 stood at \$809bn, or a little under 40% of GDP. Although Latin America has been subject to a number of debt relief initiatives – discussed in more detail below – the debt crisis has by no means been solved in the region, as recent events in Argentina and Brazil can testify. By and large, however, Latin America has been excluded from the World Bank and IMF’s Heavily Indebted Poor Country (HIPC) initiative on the grounds that most of the countries in the region are perceived to be too ‘developed’⁴.

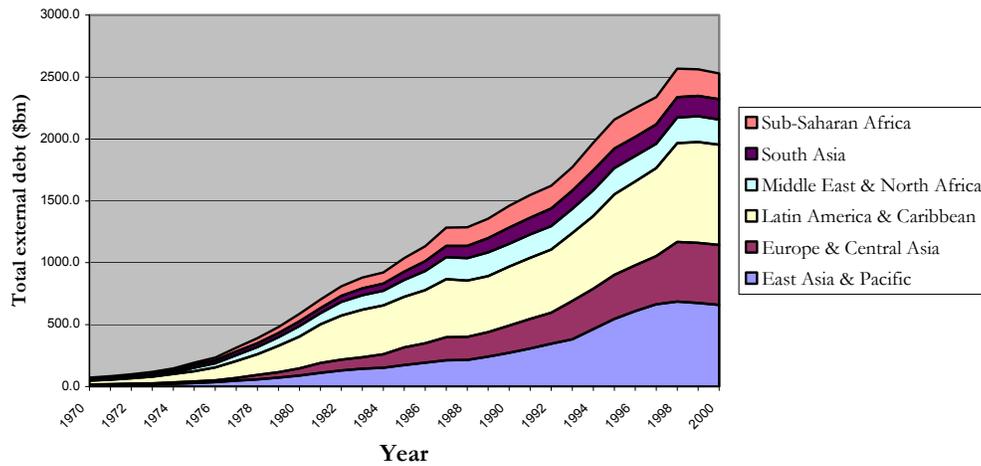
Some of the build-up of debts is, no doubt, accounted for by excessive and imprudent borrowing on the part of corrupt and irresponsible debtor governments. But this is not the only factor. As Raffer has pointed out, a major factor behind the debt build has been the growth of ‘phantom debts’; debts which increase exponentially because arrears and interest is added onto the unpaid value of the original debt. As he writes, ‘As anyone familiar with basic mathematics can verify, creditors unwilling to grant sufficient relief when necessary, increase irrecoverable debts. Claims keep growing on paper, further beyond the debtor’s economic capacity to repay. ‘Phantom debts’ come into being, existing only on paper, nevertheless compromising the debtor’s economic future and allowing creditors to exert pressure⁵.’ In Nigeria, the largest debtor in Sub Saharan Africa, for example, 40% of the colossal \$34bn of external debt can be attributed to the cost of the country falling into arrears.

³ HIPC Ministerial Network Press Release, 28th September 2002.

⁴ Of all Latin American countries, only Bolivia, Nicaragua and Honduras are eligible for the HIPC initiative.

⁵ Kunibert Raffer, Justice Before Generosity, Debt Update, December 1998, Jubilee 2000 Coalition .

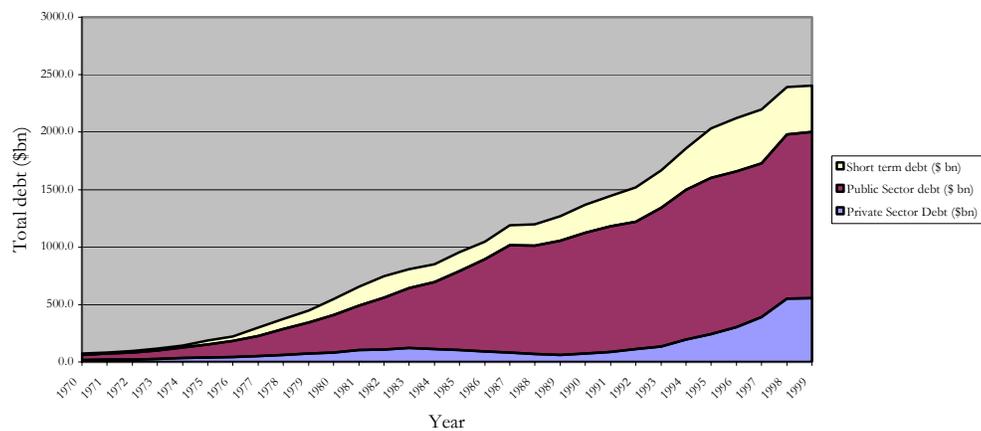
Chart 1: Growth of total external debt by region, 1970 - 2000



As Chart 2 shows, the vast majority of the debt is owed either by public institutions (governments or parastatals) or is effectively guaranteed by them. Although some of the original debt was taken on by private companies, once the crisis hit and these companies were no longer able to raise the required hard currency to service the debts, governments stepped in, sometimes even without having made any prior guarantee for the loan. In this way, debts were effectively ‘nationalised’ and the risk transferred to taxpayers.

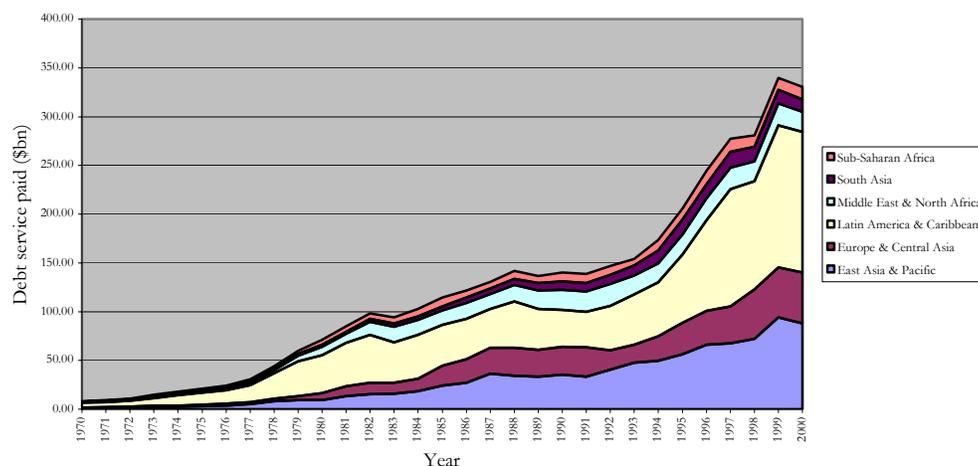
Private sector debt has started to rise again in the 1990s, particularly in Latin America and the Caribbean and East Asia. In both regions, private sector organisations now account for roughly 30% of the total external debt. While private sector debt does not, of course, create the same pressures on the public purse as government debt, it nevertheless can create exchange rate problems, as the 1997/8 crisis in East Asia demonstrated all too well.

Chart 2: Growth of public and private debt in developing countries, 1970 - 2000



While the debt build up has risen sharply since the 1970s, debt service has recently surged to new heights, both in absolute terms and in relation to exports and revenues. Chart 3 shows total debt service paid each year by each region:

Chart 3: Total debt service payments 1970 - 2000



As chart 3 shows, there was a substantial upsurge in debt service payments in the second half of the 1990s, although by 2000 this has started to reduce slightly as a result of the HIPC debt relief initiative. In 1990, developing countries as a whole were paying only \$163.8bn, or 3.8% of their combined GDP, to their rich country creditors. By 2000, this figure had more than doubled, to \$398.9bn, or more than 6% of GDP.

This upsurge is partly related to the delayed effects of increased borrowing in the 1980s, particularly for longer term loans which did not have to be repaid immediately. However, part of the upsurge is simply the result of countries becoming better debtors. The World Bank's figures show debt service on a *paid*, rather than a *due* basis. During the 1980s and early 1990s, many countries were effectively insolvent, and so were not paying the amounts due. In order to gain HIPC debt relief, countries have had to pay up, minimising the gains that, in practical terms, they should have accrued from HIPC.

Debt service is also extremely high in relation to ODA flows, and this ratio has been growing throughout the 1990s. Table 1 shows debt service payments in relation to ODA in each region in 1995 and 2000:

Table 1: Debt Service and ODA by Region, 1995 and 2000

Region	1995			2000		
	Debt Service (\$bn)	ODA (\$bn)	Ratio	Debt Service (\$bn)	ODA (\$bn)	Ratio
East Asia and Pacific	56.4	10.0	5.6	88.2	8.5	10.4
Europe and C Asia	31.9	11.6	2.8	51.8	10.9	4.8
Latin America and the Caribbean	70.1	6.3	11.0	144.3	5.0	28.9
Middle East and North Africa	20.8	5.6	3.7	20.5	4.6	4.5
South Asia	15.4	5.2	3.0	12.9	4.2	3.1

Sub-Saharan Africa	11.1	18.9	0.6	12.6	13.5	0.9
Total	205.6	57.7	3.6	330.4	46.6	7.1

As Table 1 shows, by 2000 developing countries as a whole were paying out 7 times more in debt service than they were receiving in aid; a sharp increase from the ratio of only 3.6 in 1995. This amount varied substantially by region, with Latin America and the Caribbean paying out almost 29 times more than they received in aid. Of course, this is partly due to Latin America's substantial volume of non-concessional flows which must be serviced. The inflows are not counted as ODA because they are not sufficiently concessional, while the outflows are still included in the debt service figures. Nevertheless, it is striking that for Sub-Saharan Africa, which does by and large receive concessional (ODA) flows, the ratio is still 0.9, up from 0.6 in 1995. In other words, Africa is paying back 90% of what it receives every year in aid, up from 60% in 1995.

3. WHAT ARE THE IMPACTS OF UN-PAYABLE DEBTS?

“Debt, like AIDS, is a killer” was one of the central messages of the Jubilee 2000 campaign. As the campaign made clear, debt repayments divert precious resources from governments which can ill afford to spare them. Governments that are paying up to half – and in some cases more – of their revenues in debt service have limited resources left for meeting the basic needs of their populations. Without spending money on basic services like clean water, sanitation and health, there is little hope of poor countries meeting the Millennium Development Goals.

Table 2 charts progress of HIPC's towards meeting the Millennium Development Goals. It shows each country within the various stages of the HIPC process: a) countries which are at ‘Completion Point’ (i.e. they have received full debt write-off promised under HIPC);

Table 2: HIPC and Human Development

Country	Target: Halve	Target 2: Ensure that all children can complete primary education		Target: eliminate gender disparity in all levels education		Target: Reduce under-five and infant mortality	Target: Halve the proportion of people without access to improved water sources
	Undernourished People (% of total)	Net primary enrolment ratio	Children reaching grade 5 (%)	Female gross enrolment as % of male ratio	Female gross enrolment ratio (% of male)	Under five mortality rate (per 1000 live births)	Population using improved water sources (%)
Completion Point Countries							
Bolivia	Lagging					On track	On track
Burkina Faso	On track	Far behind		Far behind		Far behind	
Mauritania	On track		Slipping Back	On track	Far behind	Far behind	Far behind
Mozambique	On track	Slipping Back		Far behind	Far behind	Far behind	
Tanzania	Slipping back	Far behind	Far behind	On track	On track	Far behind	Far behind
Uganda	Far behind			On track	Far behind	Lagging	Far behind
Decision Point Countries							
Benin	On track	On track		Far behind	Far behind	Far behind	
Cameroon	On track					Slipping back	On track
Chad	On track	Far behind	Far behind	Far behind	Far behind	Far behind	
Ethiopia		Far behind		Slipping back	Slipping back	Far behind	Far behind
The Gambia	On track			On track	On track	Far behind	
Ghana	Achieved					Lagging	On track
Guinea	On track	Far behind		On track	Far behind	On track	Far behind
Guinea-Bissau						Far behind	
Guyana	On track	Slipping back	On track	On track	Achieved	Far behind	On track
Honduras	Far behind					On track	On track
Madagascar	Slipping Back	Slipping back		On track	Achieved	Far behind	Far behind
Malawi	On track			On track	On track	Lagging	Lagging
Mali	Far behind	Far behind	On track	On track	Slipping back	Far behind	On track

Country	Target: Halve	Target 2: Ensure that all children can complete primary education		Target: eliminate gender disparity in all levels education		Target: Reduce under-five and infant mortality	Target: Halve the proportion of people without access to improved water sources
	Undernourished People (% of total)	Net primary enrolment ratio	Children reaching grade 5 (%)	Female gross enrolment as % of male ratio	Female gross enrolment ratio (% of male)	Under five mortality rate (per 1000 live births)	Population using improved water sources (%)
Nicaragua	Far behind	On track	Far behind	Achieved	Achieved	On track	On track
Niger	Far Behind	Far Behind	On track	Far behind	On track	Far behind	Far behind
Rwanda	Slipping Back					Slipping back	
Sao Tome & Principe						Far behind	
Senegal	Far behind	On track	On track	On track	Far behind	Far behind	On track
Sierra Leone	Lagging					Far behind	
Zambia	Far behind	Slipping back		On track		Slipping back	On track
HIPCs Likely to reach Decision Point							
Burundi	Slipping Back			Far behind		Far behind	
Central African Republic	Far behind					Far behind	
Cote D'Ivoire	On track	Far behind	Far behind	Far behind	Far behind	Slipping Back	On track
Comoros					On track	On track	Achieved
Congo DR	Slipping Back					Far behind	
Congo Rep	Far behind			On track	Far behind	Far behind	
Myanmar	On track					Far behind	Far behind
Togo	On track	On track		Far behind	Far behind	Far behind	Far behind
Others							
Angola	On track					Slipping back	
Kenya	Far behind			Achieved	On track	Slipping back	Lagging
Lao	Far behind	On track		On track	Far behind	On track	On track
Liberia	Slipping Back					Far Behind	
Somalia	Slipping Back					Far Behind	
Sudan	On track			On track	On track	Far behind	On track
Vietnam	On track			On track	On track	Lagging	Lagging

Country	Target: Halve	Target 2: Ensure that all children can complete primary education		Target: eliminate gender disparity in all levels education		Target: Reduce under-five and infant mortality	Target: Halve the proportion of people without access to improved water sources
	Undernourished People (% of total)	Net primary enrolment ratio	Children reaching grade 5 (%)	Female gross enrolment as % of male ratio	Female gross enrolment ratio (% of male)	Under five mortality rate (per 1000 live births)	Population using improved water sources (%)
Yemen	Far behind					Far behind	Far behind
Totals							
Achieved	1	0	0	2	3	0	1
On track	16	5	4	15	8	6	12
Lagging	2	0	0	0	0	4	3
Far behind	12	8	4	8	11	26	10
Slipping Back	7	4	1	1	2	6	0

b) countries which are at 'Decision Point' (when debt relief has been committed, and some interim debt service relief provided); c) countries which are likely to reach Decision Point; and countries unlikely to ever benefit from HIPC, either because their debt is already considered sustainable (Kenya, Angola, Vietnam, Yemen); because they are at war (Somalia; Liberia, Sudan); or because they have refused HIPC relief (Lao PDR.)

The results are not encouraging. In every area except one (female gross enrolment as a % of male enrolment), fewer than half the HIPCs are on track to meet the target by 2015. Many HIPCs are not only off-track but are in fact slipping back from their 1990 levels. For example, at least 7 of the HIPCs are moving away from meeting the target of halving the proportion of people who are under-nourished; while 6 are slipping behind on reducing infant mortality. Table 2 shows that most of the HIPCs are 'lagging' or 'far behind' on most of the indicators.

Of course, debt is not the only cause of poor human development. Other factors, such as low rates of economic growth, conflict and poor governance can cause both a build-up of unsustainable debts and poor human development. However, debt repayments are a major contributing factor to poor human development because they drain money away from government budgets. In 1999, for example, the HIPCs⁶ spent one third of their tax revenues in servicing their debts. In some countries, such as Angola (84%), Cote D'Ivoire (62%), Guyana (48%) and Sierra Leone (50%), this ratio was much higher. Even by 2001, when some HIPC countries had started to receive debt relief, the 26 HIPCs that had passed decision were still paying 15% of their revenues in debt service. Box 1 looks at the case of Zambia and describes some of the appalling consequences of the high burden of debt service in that country.

Moreover, the burden of debt service not only affects those countries officially classified as eligible for HIPC relief. For example, Bangladesh, (not included within the HIPC list because her debt burden is not considered sufficiently high) pays \$790m per year in debt service, roughly what is spent on public health. It is no surprise, therefore, to find that Bangladesh is far behind in the target of halving hunger by 2015. In Pakistan, 63% of government revenues are spent on debt service, which may explain why she is so far behind in terms of reducing infant mortality.

⁶ Excluding Somalia, Liberia and Sudan, for which no data is available

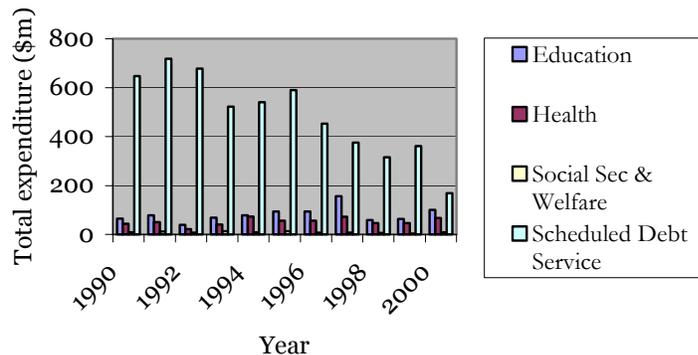
Box 1: Debt and Famine in Zambia

Zambia is one of the countries which, on current trends, is extremely unlikely to meet the overall goal of halving absolute poverty by 2015. In fact, poverty is worsening in Zambia; between 1996 and 2001, the proportion of the population living below the \$1 a day poverty line rose from 69% to 86%. Zambia's problems are compounded by the famine which is raging across the country. According to Oxfam, 2.3 million people are currently facing chronic food shortages. Nutritional indicators are already extremely poor: 53% of children aged 3-59 months are stunted, while 24% are underweight. Unsurprisingly, Zambia is also slipping back on the goal of reducing infant mortality – in other words, more and more children are dying.

Zambia's debt burden is adding to the problem. As 'Jubilee Zambia', the civil society organisation campaigning for debt relief in Zambia, write: we are '...not against paying back what was borrowed but (are) simply saying the country is unable to do so without denying its children food, school place, health care and other basic needs of life. Debt payments in Zambia like elsewhere take away money meant for developmental needs. This limits the opportunities for the nation to provide for its people and this in turn leaves people susceptible to the vagaries of nature. Zambia is like a country at war with tens of thousands of its people marginalized by the economic and social effects of poverty and deprivation of various forms and all linked to the external debt.'

Chart 4 shows just how much is being spent on debt service in Zambia in relation to social expenditures:

Chart 4: Debt Service versus spending on education and health in Zambia, 1990 - 2000



As the chart shows, the Zambian government is spending much more on debt service than on health, education or social welfare. Even by the year 2000, Zambia was spending \$169m on debt service and only \$100m on education.

Sources: Oxfam 'Death on the Doorstep of the Summit' Briefing Paper No. 29; Jubilee Zambia 'Where Does the Money Go? Servicing Debt versus Servicing People.' Chart from the Jubilee Zambia report; data originally from Bank of Zambia and staff estimates.

4. RECENT DEBT RELIEF INITIATIVES

The problem of sovereign over-indebtedness is not new. There were debt crises in the 1930s, in the 1880s and in the 1840s. Debts have frequently been written off, reduced or rescheduled for political or humanitarian purposes. After World War II, for example, Germany owed a substantial volume of debts to the allied powers. In 1952, Hermann Josef Abs, an independent central banker, headed a team which negotiated substantial debt reductions with Germany's creditors. According to Abs, if Germany had been forced to pay the debt repayments due, which amounted to 10% of exports, this would have been 'intolerable.' The allies agreed, and in February 1953 wrote-off more than two thirds of what they were owed. In 1953, Germany was to repay sums equivalent to 3.5% of exports; repayments were never expected to be more than 5% of exports.

A similar deal was offered to Indonesia in 1971 when President Suharto succeeded President Sukarno. The same negotiator, Hermann Josef Abs, was sent to make a deal on debt reduction for the new government, considered to be a crucial cold-war ally despite the manifold evidence of shocking human rights abuses in the country. Abs noted that the IMF and World Bank had concluded that the debt service due each year – \$200m – would exceed the country's capacity to repay. The debt was rescheduled and Indonesia was given the opportunity to defer repayments for a further 8 years if the schedule proved too onerous⁷. Had the debt relief initiatives of the past three decades been as generous, the debt crisis would almost certainly have been resolved long ago.

Although the beginning of the 1980s' and 1990s' debt crisis dates back to Mexico's default in 1982, concerns about the level of indebtedness amongst poor countries were in fact starting to surface as early as 1969.

The **Pearson Report** of that year, which had been prepared on request of the then President of the World Bank, raised concerns about the debt problem and its origins. The report recommended that debtor countries be granted a 'Bisque clause', similar to that which had applied to a loan made by the US to the UK in 1945. This clause had allowed the debtor (the UK) to unilaterally waive or cancel interest payments. In 1957, it was changed to allow the UK to postpone up to 7 instalments, 4 of which had already been postponed by the time the Pearson Report was written. These payments were deferred to beyond 2001, with a 2% interest rate, and to date have never been repaid⁸. Sadly, the Pearson report was ignored.

⁷ Source: Joseph Hanlon: 'We've been here before: Debt, default and relief in the past – and how we are demanding that the poor pay more this time.', Jubilee 2000 Coalition.

⁸ Source: Raffer and Singer op cit.

Box 2: Recent Debt Relief Initiatives

- 1969 – Pearson Report
- 1978 – Retroactive Terms Adjustment.
- 1985 – Baker Plan
- 1987 – Special Programme of Assistance for Africa.
- 1988 – Paris Club: Toronto Terms
- 1989 – Brady Plan
- 1989 – IDA Debt Reduction Facility
- 1990 – Paris Club, Houston Terms
- 1991 – Paris Club, London (‘enhanced Toronto’) terms
- 1995 – Paris Club, Naples Terms
- 1996 – HIPC Initiative
- 1996 – Paris Club, Lyon Terms
- 1999 – Enhanced HIPC Initiative
- 1999 – Paris Club, Cologne Terms
- 2001 – ‘Topping Up’ of HIPC at

Source: Birdsall and Williamson (2002) ‘Delivering on Debt Relief: From IMF Gold to a New Aid Architecture;’ Raffer, K and Singer, H W (2001) ‘The Economic North South Divide: Six Decades of Unequal Development’

In 1978, bilateral creditors adopted the **Retroactive Terms Adjustment** which cancelled some of the debt stemming from aid given by bilateral donors and also aimed to increase the net flow of resources to developing countries. According to Raffer and Singer, the clumsy and long winded name was evidence of the ‘creditors’ desire to avoid the words ‘debt relief’ or ‘debt cancellation’, not to mention ‘insolvency.’ This steadfast refusal to recognise realities officially has remained the most important hindrance to proper debt management and to a proper solution to the crisis until the present day⁹.

imilarly, the 1980s and 1990s saw successive agreements in the **Paris Club** to provide increasing levels of debt cancellation. The Paris Club, set up in 1956, acts as an informal group of creditor governments to agree on debt reductions for countries facing repayment difficulties. Paris Club members include official bilateral creditors, largely from industrialised countries. In 1991, John Major, then Chancellor of the Exchequer, proposed that creditor countries cancel half the debt owed to them by developing countries, rescheduling the remainder of the debt. This proposal would have generated relief of \$18bn. He subsequently went even further and proposed 2/3 debt cancellation. Eventually in 1994 it was agreed that a 67% reduction could be accepted. In practice however this has only applied to “eligible debt” a limited proportion of the debt, defined by ‘cut-off’ dates and other criteria.

1985 saw the advent of the **Baker Plan**, named after the then US Treasury Secretary James Baker. Baker’s main objective was to prevent outright default by the debtor through the provision of new loans. The main aim of the plan was to bail-out private sector creditors, and thus avert a financial crisis in the west. Banks were ‘encouraged’ to make new loans totalling \$20bn, while the IMF and World Bank also provided greater levels of short term financing. However, the additional financing was extremely limited, and all the Baker Plan managed to achieve was to postpone the debt problem, rather than to solve it. Meanwhile, as already shown, the debts continued to mount¹⁰.

⁹ Ibid, page 163-164.

¹⁰ Source: Martin Debt and Bill Peters ‘The Crisis of Poverty and Debt in the Third World’ 1999.

In 1989, the World Bank instigated a **Debt Reduction Facility (DRF)** which provided loans to debtor countries to buy back their own debt on the secondary market at a discounted rate. For example, Guinea bought back \$130m of its own debt from commercial banks for a total of \$13.5m, financed partly through the Debt Reduction Facility. By end 1998, a total of 17 countries had taken part in such schemes, cancelling a total of \$3.7bn in debt at a cost of \$583m. The DRF was new in that it implicitly recognised the low real value of the debt; and that much of the debts of low-income countries could never be repaid. However, given that private creditors had effectively written down the value of the debts, the DRF amounted to little more than an accounting exercise.

As a result a new scheme had to be launched in 1989 - the **Brady Plan**, named, as with the Baker Plan, after the US Treasury Secretary of the time. Brady noted that commercial banks had effectively written off a large chunk of the debts of developing countries in any case through reduced-price sales on the secondary market. Commercial banks could reduce the amounts owed by poor countries, partly by writing off some of the debt with the help from the World Bank and IMF, and partly by rescheduling a proportion of the remaining debt and converting it into bonds – the so-called ‘Brady Bonds’ - at a reduced price. However, as a whole the Brady Plan did little to reduce the debt burden. It simply decreased the burden of commercial debt – and thus the exposure of western banks – while increasing debts owed to multilateral institutions. From the point of view of the debtor country, multilateral debt was more burdensome than private sector debt as it could not be cancelled or rescheduled. Moreover, debtor countries faced hefty interest bills for the Brady Bonds.

In general, the debt relief initiatives of the 1980s and 1990s largely failed because they were based on the following assumptions:

- That the debt problem was a liquidity problem rather than a solvency problem, to be resolved by rolling over old debts and providing new loans;
- That a crisis was resolved when western banks and thus the western financial system were placed beyond risk; and
- That multilateral debts could never be rescheduled.

All of these assumptions proved to be either false or outright harmful. In particular, the reluctance of multilateral creditors to write off any of the funds owed to them precluded any effective resolution of the debt crisis in the poorest countries, particularly in Africa. Therefore, 1996 saw the development of a new initiative which focused in particular on the very poorest countries: the **Heavily Indebted Poor Countries (HIPC) initiative**.

Under the HIPC initiative, the IMF and the World Bank produced for the first time in their history a comprehensive debt relief initiative which accepted the cancellation of multilateral debts. It was seen as a ‘comprehensive’ solution to debt problems, because for the first time all classes of creditor were expected to participate.

Debt cancellation under HIPC was designed to bring debt burdens down to levels which were considered ‘sustainable’; initially, a debt to export ratio of 200% - 250%; or a debt-to-revenue ratio of below 280% if certain criteria (such as export to GDP and revenue to GDP ratios) were met. Under the initiative, all creditors agreed to provide their share of relief required to bring countries debt burden down to within those thresholds.

In reality, the initiative proved to be completely ineffective. Uganda and Bolivia received debt cancellation in April and September 1998 respectively – but within a year their debt burdens were once again deemed unsustainable. They had fallen victim to falling commodity prices which in turn exposed the over-optimistic forecasts made by World Bank and IMF staff. Both the criteria for relief and the economic forecasts lacked intellectual rigour. To many observers, their purpose appeared to be to limit levels of relief for the debtor, and thereby reduce losses for creditors. Mozambique, after treatment under HIPC, paid just 1% less in debt service than before HIPC. As a result no money was released for spending on health and education.

By 1999, the shortcomings of the original HIPC initiative were evident and the Jubilee 2000 campaign was gathering steam. Jubilee 2000, launched in 1996, had the stated aim of ‘cancelling the unpayable debts of the world’s poorest countries by the year 2000.’ By the time of the G7 summit in Cologne in the summer of 1999, the campaign had amassed millions of supporters worldwide. In Cologne, the world’s leaders were surrounded by 50,000 demonstrators and pressured by a million more who formed a ‘Global Chain Reaction’ of massive international protest¹¹.

As a result, the HIPC initiative was expanded and ‘HIPC II’ (or the ‘enhanced HIPC initiative’) was born. Total debt cancellation of \$100bn was pledged, and the HIPC sustainability criteria were reduced to provide a ‘cushion’ for poor countries. Debts were now deemed to be unsustainable when they exceeded 150% of exports, in net present value terms. The debt-to-revenue criterion was introduced, so that for open countries with high levels of government revenues, debts were deemed unsustainable when they exceeded 250% of revenues in net present value terms. There was a new emphasis on poverty reduction, with countries required to prepare Poverty Reduction Strategy Papers (PRSPs) in order to qualify for HIPC relief.

Debt campaigners were still not satisfied, however, and pushed for even further debt cancellation, this time on a bilateral basis. US President Bill Clinton was the first to respond, announcing in September 1999 that the US would be writing off 100% of the debts owed to it by the HIPCs. In December 1999, Gordon Brown of the UK followed suit, and eventually peer pressure forced the other leading industrialised countries to make similar commitments. Eventually, all G7 countries plus a number of smaller industrialised nations agreed to cancel 100% of the debts owed to them by the HIPCs, either at Decision Point or Completion Point.

However, evidence since the year 2000 does not suggest that the crisis of indebtedness for HIPCs has been resolved. In April 2002, the World Bank and IMF released two reports which confirmed NGO fears that the HIPC initiative was very far from achieving its stated goal of providing a ‘lasting exit’ from the unsustainable debt burdens of the poorest countries. The most recent report, released in September 2002, presented an even more gloomy picture, showing that:

- Of the 19 countries originally expected to reach ‘Completion Point’ under the initiative by the end of the year 2002, at least 11, or 60% would fail to do so. As of end-November 2002, only 6 countries have in fact reached Completion Point;

¹¹ Source: ‘The world will never be the same again’ Jubilee 2000 Coalition, 2000.

- At least 13 countries could no longer expect to have a sustainable level of debt even according to the HIPC criteria on reaching Completion Point; Uganda, which reached Completion Point in 2000, was already facing an unsustainable burden of debt;
- 13 out of the 20 countries in the ‘interim’ period between Decision Point and Completion Point have at some point gone ‘off-track’ with their IMF Poverty Reduction and Growth Facility (PRGF) programmes, thus delaying their debt relief and in some cases resulting in suspension of interim debt relief from the IMF and other creditors;
- Non-participating creditors were threatening to undermine the HIPC initiative by launching lawsuits against HIPCs to recover debt repayments that should have been reduced or cancelled by the initiative.

In response to these charges, G8 leaders in June 2002 committed themselves to delivering an additional \$1bn of debt relief in order to provide ‘topping up’ for HIPCs when they reach Completion Point if their debts no longer look sustainable as a result of lower-than-expected export revenues. In September 2002, they announced that the funding for this top-up had been fully agreed. However, since that time, no country has reached Completion Point meaning that there has been no test-case for the success of this proposal. Only Burkina Faso, which reached Completion Point in April 2002, has so far seen any topping up of relief.

The major charge against the HIPC initiative, however, is not that it is failing to meet its stated aims, but that its stated aims are simply not ambitious enough. As Jeffrey Sachs wrote in the *Financial Times* on 24th July 2001, ‘rather than looking at how much debt relief countries really need if they are to fight disease and give even a basic education to their children, G7 summiteers in Cologne arbitrarily defined a ‘sustainable’ level of debt as equal to 150% of exports...An approach based on evidence would start with the needs of poverty reduction and fashion debt relief to help meet those needs.’¹²

5. DEBT RELIEF AND HUMAN DEVELOPMENT

The manifold failings of the HIPC initiative have led to an increased pressure for a new approach to debt relief – one that is based on human development needs as specified in the Millennium Development Goals. The basis of this approach is as follows:

- The Millennium Development Goals are a set of internationally agreed targets that all countries have committed themselves to. Rich countries should therefore do whatever they can to ensure that the MDGs are met;
- Poor countries prepared to commit resources to meeting the basic needs and economic rights of their populations should not be prevented from doing so because of the need to pay back debts to rich creditor countries and institutions;
- Debt relief required should be assessed on a case-by-case basis, ideally by an independent arbitration panel with nominees from both debtor and creditor

¹² Cited in ‘Putting Poverty Reduction First’ by Eurodad, op cit.

countries. The panel should consider, amongst other factors (for example, the circumstances in which the debt was contracted):

- How much the country will need to spend on a yearly basis to meet the MDGs. Such analysis should ideally be done with the assistance of international organisations such as the United Nations Development Programme (UNDP), UNICEF and the World Health Organisation;
 - The level of resources available to a country in terms of tax revenues and aid and the other spending requirements faced by the government;
 - How much debt cancellation will be required in order to leave the debtor with sufficient resources to meet the MDGs;
- Debtor governments should only be granted debt relief if they can clearly demonstrate that the resources saved will be channelled towards meeting the MDGs. This process should be monitored by, amongst others, local civil society organisations.

How the money is being used

Some have argued that debt relief will do little to help countries meet the MDGs on the grounds that the money saved will not be spent on the key areas needed to reduce poverty, or that it will simply result in increased military expenditure.

In order to examine whether or not debt relief resources are being used to meet the MDGs, in a recent report¹³ we looked at data on spending on health, education and the military in 10 African countries, all of which had reached 'Decision Point' under HIPC by the end of the year 2000 (Burkina Faso; Cameroon; Gambia; Guinea-Bissau; Madagascar; Malawi; Mauritania; Niger; Rwanda; and Uganda). The list was determined by data availability. Our conclusions were by their nature tentative, due to the problems in tracking budgetary expenditures in African countries. Furthermore, looking at spending on a sectoral level does not necessarily prove that spending on, for example, education, is genuinely going to benefit the poor rather than being spent on, say, elite universities.

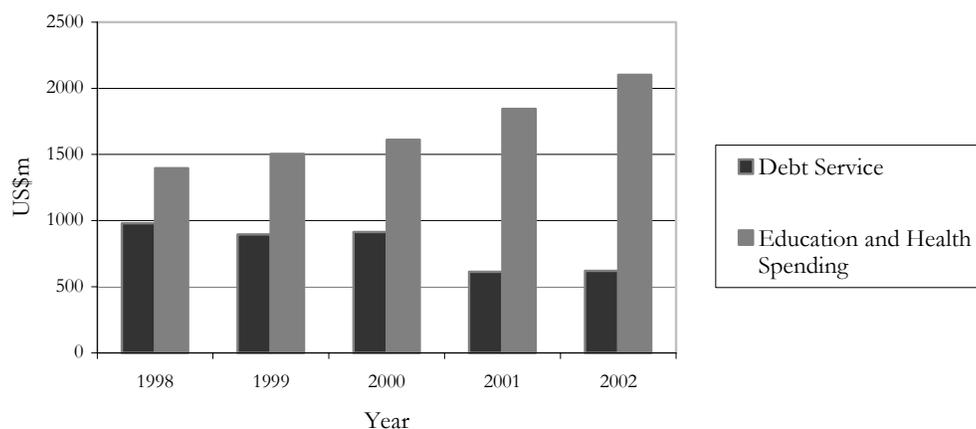
Nevertheless, our preliminary results found some extremely positive trends:

- In 1998, education spending in the 10 countries was only \$929m, less than the amount spent on debt service. Today, it is \$1,306m – more than twice what is being spent on debt service;
- In 1998, debt service took up twice as much, in terms of resources, as spending on health. Since then, spending on health has risen by 70% and is now one third higher than debt repayments;
- There is no evidence to suggest that debt relief is being used to fuel military expenditures. In the countries reviewed, we found no increase in military spending over the period.

¹³ 'Relief Works: African proposals for debt cancellation – and why debt relief works.' Jubilee Research at NEF, August 2002

Our findings are shown in Chart 5:

Chart 5: Total Education and Health Spending against Debt Service



Of course, simply spending money in a particular area does not necessarily mean better outcomes in terms of human development. However, recent work by IMF economist Paulo Silva Lopes does suggest that spending on social sectors can have a positive impact. In his paper, Lopes used historical data to compare trends in social indicators in Sub-Saharan Africa with trends in government spending. He found a positive correlation between spending on social sectors on a per capita basis, in dollar terms, and improvements in social outcomes¹⁴.

Demonstrating that funds are being used effectively

Some debtor countries have developed concrete mechanisms to show that the resource savings from debt relief are really being used to fund spending on human development. Box 3, for example, looks at the Poverty Action Fund (PAF) in Uganda, which is often held up as a model case for other countries to follow.

Although Uganda is the country with the most advanced poverty action fund, it is not the only country to use such a mechanism. In Tanzania, for example, a similar Multilateral Debt Fund, through which debt service savings are channelled to social expenditures, was established in July 1998. However, according to research by Eurodad¹⁵, Tanzania's fund has not been as successful as that used by Uganda. This is because the links between debt relief and poverty reduction were weaker in Tanzania than in Uganda. Moreover, the Tanzanian government, through the use of the fund, did not succeed in creating mechanisms to integrate debt relief into a broader strategy to reduce poverty. The public profile of the multilateral debt fund has also not been as high in Tanzania as in Uganda.

¹⁴ Lopes, P S (2002) 'A Comparative Analysis of Government Social Spending Indicators and Their Correlation with Social Outcomes in Sub-Saharan Africa.' IMF Working Paper WP/02/176

¹⁵ Eurodad: Eurodad Debt and HIPC Initiative Update, Spring Meetings 2001

Box 3: Uganda's Poverty Action Fund (PAF)

Uganda's Poverty Action Fund was set up in 1998 to demonstrate that the resources saved from debt repayments were being used to fund poverty reducing expenditures. Despite its name, the PAF is not a separate fund but rather a ring-fenced subsection of the budget. Areas to be included in the PAF are determined by a group consisting of representatives from the Ministry of Finance, Planning and Economic Development, line ministries, donors and civil society. Currently, PAF areas include primary education, primary health care, rural water and sanitation, implementation of the land act, agricultural extension and rural roads.

PAF resources include savings from debt relief, but also bilateral contributions from donors such as DFID and SIDA and a contribution from the Government of Uganda (GoU.) GoU contributions are determined by various rules designed to demonstrate that the expenditures financed by debt relief are truly 'additional' to what would have been spent anyway. The Government is required to put an increasing amount of money into the PAF year-on-year, and also to ensure that the PAF as a share of the total government budget does not fall over time. In the latter case, the GoU is certainly succeeding. Before the PAF was set up, in 1997/8, expenditures on PAF areas only amounted to some 18% of the budget. Now, the PAF constitutes around 36% of the budget.

The PAF is monitored on a regular basis through joint meetings involving the GoU, donors and civil society. Concrete outcomes from PAF expenditures such as the number of classrooms or boreholes constructed are made available. In order to ensure proper accountability, 5% of all PAF resources are devoted to monitoring and accountability of PAF programmes and PAF areas are subject to particularly rigorous reporting requirements, especially at district level.

As well as ensuring that debt relief savings are properly used, the PAF has brought about a number of other benefits. Firstly, it has encouraged donors to shift away from traditional project funding, which has very high transactions costs, and towards budget support. By putting budget support resources into the PAF, donors are able to be sure that their funds are being used for poverty focused areas, rather than, say, Defence or State House, while still giving the GoU flexibility in the use of those resources and lowering transaction costs. The PAF has also served to highlight to key constituencies both within and outside the GoU that government spending can have an impact on poverty. Finally, the PAF is to a certain extent being used as a test case for other areas of the budget. Eventually, it is hoped that the more stringent monitoring mechanisms which apply for PAF resources can be extended to the rest of the budget.

However, the PAF is not without its costs. In particular, it has sometimes served to over-emphasise spending on directly poverty reducing areas on the expense of other areas – such as referral hospitals – which may be just as vital in the long run. In recent years, the GoU has also tended to over-allocate resources to the PAF in order to meet the agreed criteria even though the absorption capacity has not always been sufficient, particularly in terms of recruitment of frontline staff.

The Tanzanian and Ugandan cases suggest the following implications for other countries seeking to demonstrate ‘debt-for-human development’ swaps:

- There can be no one ‘model’ for countries to follow. The contrasting experiences of Tanzania and Uganda suggest that initiatives will work better when they are ‘home-grown’ and have substantial political commitment;
- Debt relief funds should be integrated into the government budget, rather than run as separate funds. Even Uganda’s Poverty Action Fund has relatively high transaction costs in terms of tracking and monitoring PAF expenditures separately from the rest of the budget. Running a separate fund would worsen this phenomenon and create a further burden of work for planning and budgeting staff;
- Integrating debt relief funds into the general budget can also have positive spin-offs into other areas of planning and budgeting, as the experience of Uganda has shown. By improving accountability and transparency in one area of the budget, these funds can create incentives for ‘best practice’ to be expanded across the whole budget;
- It is vitally important that civil society organisations are fully involved in both the planning and budgeting and monitoring of resources saved from debt relief. Although in many countries civil society organisations lack the required skills and know-how to do this, such skills can develop over time as the incentives for carrying out this kind of monitoring become clearer.

6. POLICY MESSAGE: HOW MUCH DEBT CANCELLATION IS NEEDED?

Calculating the resources needed to meet the MDGs on a country-by-country basis is no easy task. Data on the number of poor people in each country, the current level of indicators such as HIV and malarial prevalence, or even the number of children in school, are often not available, or not reliable. Working out the exact amount that will need to be spent across different countries to meet common objectives requires making heroic assumptions about costs in each country. Moreover, some of the goals will interact with each other; if Goal 1 is met, for example, it is very likely that the additional growth and higher standard of living of the population which follows from this will bring about improvements in health and education outcomes.

For this reason, any attempt to assess the amount of debt cancellation required to meet the MDGs must inherently seek to provide very general figures, or an ‘order of magnitude.’ More detailed work at the country level will be needed to assess the precise requirements for the MDGs.

In an earlier report: ‘The Unbreakable Link – Debt Relief and the Millennium Development Goals’, we used country specific estimates prepared by key international organisations such as the World Bank, UNICEF, the World Health Organisation and Water Vision 21 to try to develop some indication of the debt cancellation needed to meet the MDGs. We tentatively demonstrated that if poor country governments are to have sufficient resources to meet the MDGs, as well as to meet other essential expenditure needs and pro-poor investments, **the 42 HIPC countries as a whole cannot afford to make any debt service payments.** In fact, we find that **even if all the debts of these 42 countries are cancelled, the HIPCs will need between**

\$16.5bn and \$30.6bn in additional aid each year if there is any hope of meeting the MDGs.

These figures are based on actual debt service payments for 1999 – before most of the HIPCs had received any substantial debt service relief from the HIPC initiative. But as Nancy Birdsall and others at the Centre for Global Development have pointed out, even when all 42 countries have fully passed through the HIPC initiative, the savings will only amount to a paltry \$3.5bn per year¹⁶. It is clear that much deeper, and faster, debt relief must be provided.

The additional amount needed to help the HIPCs meet the MDGs may be small in global terms. But as Table 3 shows, it represents 18% of GDP for the 42 HIPCs as a whole, and a staggering 355% of their debt service. Graph 1 shows the breakdown of this total by country.

Table 3: Breakdown of Funds required to meet the Millennium Development Goals

No.	Goal	Approx. Amount Required US \$bn	Percentage of GDP for 39 HIPCs	Percentage of current debt service for 39 HIPCs
1	Eradicating mass poverty	45.7bn	27.2%	514%
2	Achieving Universal Primary Education	6.5bn	3.8%	72.8%
3	Promote Gender Equality and Empower Women	Not known	Not known	Not known
4	Reduce Child Mortality	20.03bn	11.9%	225%
5	Improve Maternal Health			
6	Combat HIV/AIDs, malaria and other diseases			
7	Ensure Environmental Sustainability:			
	<ul style="list-style-type: none"> • Reverse the loss of environmental resources 	Not known	Not known	Not known
	<ul style="list-style-type: none"> • Halve the Proportion of people without access to safe drinking water 	\$2.4bn	1.4%	27.0%
	<ul style="list-style-type: none"> • Improve the lives of at least 100 million slum dwellers 	\$1.7bn	1%	19.1%
	Total (Goal 1)	\$45.7bn	27.2%	514%
	Total (Excluding Goal 1)	\$30.6bn	18.1%	355%

In the next section, we provide an overview of the methodology used to calculate the resources required to meet each of the MDGs and hence the total debt cancellation needed.

¹⁶ Source: ‘Gold for Debt: From Debt Relief to a New Development Architecture’ by Nancy Birdsall and John Williamson, with Brian Deese.

Goal 1: Eradicate extreme poverty and hunger

- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Eradicating mass poverty – defined as those living below the international poverty line of \$1 a day - is often seen as the most fundamental of the MDGs. The \$1-a-day poverty line is quite a problematic measurement tool, not least because people's well-being, or ill-being, depends on much broader factors than absolute income. Moreover, using an absolute international poverty line does not reflect differences in relative poverty across countries. While it represents gross numbers, or incidence, of those who are counted as poor, it says nothing about the depth of poverty or the inequalities amongst the poor, or between the poor and rich. But, as DFID argue, the \$1 target 'represents an internationally agreed operational method of identifying the number of people who by any standards have unacceptably low incomes'¹⁷.

Of all the MDGs, this goal is also the most difficult to relate to debt service payments. It is clear that debt repayments are taking resources that could be spent to reduce poverty, but quantifying the exact linkages is much more difficult.

In Box 4, we provide an econometric assessment based on the standard econometric models which have been used by mainstream economists to calculate the resource requirements for poverty reduction¹⁸. The figures in Box 4 should not be taken too seriously – they rest on a number of questionable economic assumptions, particularly concerning the relationship between growth and poverty, and investment and growth. In particular, the results assume no role for redistribution within countries in order to reduce poverty. Moreover, there is also potential double counting between this goal and the other MDGs. Economic growth is likely to automatically increase education and health spending as governments have more resources available from taxes. A better educated population will also, other things being equal, result in higher economic growth. For this reason, we show the overall estimate of the costs of meeting Goal 1 separately from the cost estimates of meeting the other goals.

Our overall point, however, is simply that by using standard and widely accepted economic models, we can show that in a world of finite development resources, debt repayments will be traded off with limited poverty reduction expenditures.

Box 4: The Economists' Approach – Debt, Poverty and Growth

In development circles, it is widely accepted that, in order to reduce poverty, you need economic growth. And in order to grow, you need to invest. Logically, money that is spent on debt repayments cannot be spent on investment, and thus reduces poor countries' ability to grow.

However, there is substantial uncertainty around the links between poverty and growth, and growth and investment. It is clear that growth does not necessarily reduce poverty, nor does investment necessarily promote growth. However, in this paper we have followed the methods put forward by mainstream economists such as those at the Overseas Development Institute (ODI), the Institute of Development Studies (IDS), and the UN Conference on Trade and Development (UNCTAD)

Using these ratios, we can calculate the required level of investment in each region to reach the target growth rate. According to Gottschalk's calculations, investment would have to be 49% of GDP in Africa, 48% in Latin America and the Caribbean; 19% in East Asia; and 33% in the Middle East and North Africa to meet the target growth rates.

Clearly, some of the investment required can be financed from domestic sources. For each country within the group of 42 HIPCs, therefore, we looked at the current level of savings relative to GDP, taken from the World Bank's World Development Indicators. The difference between the current savings, and the required investment, is the 'savings gap.' This is the gap that needs to be filled by external financing.

Some of the external financing can, of course, come from private external capital flows. Private external financing can include workers remittances, foreign direct investment (FDI), and portfolio flows – i.e. purchase of domestic stocks and shares by foreign investors. We are assuming that all of these are outside the control of the individual poor country, and that they will grow broadly in line with world GDP.

So, each country has an 'official financing gap' based on the level of investment they will need in order to grow to reduce poverty, minus what they can expect to save domestically, and the private transfers they can expect from overseas. The remainder will have to be met through official transfers from overseas, either through grants or loans.

This is where the debt comes in. We assume that debt repayments should only be made if there are sufficient available resources left after the funding requirements of the MDGs have been met. So, we can calculate, for each of the HIPCs, how much is available for debt service. This is defined as their official financing gap, less what they are currently receiving in grants and new loans. For purposes of illustration, we use 2000 data (projecting increases in grants and loans from 1999), to show the impact of the initial growth rates on requirements.

Appendix Table 1 shows the results for each of the HIPC countries. In sum, it shows that:

- **In total, the HIPC countries will need a total of \$46bn per year if they are to meet the required growth targets.** This is even without any debt service payments.
- Individually, almost every HIPC will need additional resources, and be unable to make any debt service payments, to meet the targets. The only HIPCs for which this is not the case are Angola, Laos, Myanmar, Vietnam, and Yemen. However, in most cases this is probably because of problems with the data. For example, according to the World Development Indicators, Angola has a savings rate of 32%, which seems a little improbable. In the case of the Asian HIPCs, the growth rates which will be required to meet the poverty reduction targets are probably under-estimated, because they are based on regional averages – as the HIPCs are amongst the poorest in the region, the rate at which they will need to grow will be accordingly higher.
- Most of the other countries require substantial increases in external official financing, due to the high levels of investment needed. In particular, some of the larger HIPCs, such as Sudan and Tanzania will require external financing of more than \$4bn, over and above what is currently received.

These figures may seem extremely high in relation to current aid flows. But the results are in fact comparable with other work by UNCTAD, which has estimated that investment to GDP ratios will have to be as high as 40% in Sub Saharan Africa if growth targets are to be met.

Goal 2: Achieving Universal Primary Education

- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Access to primary education is a basic human right. Education benefits individuals, their families, and also society as a whole, by enabling greater participation in democratic processes. Education serves to empower individuals, helps them to take advantage of economic opportunities, and improves their health and that of their family.

Yet, in 2000, **one in three** children across the developing world did not complete the 5 years of basic education which UNICEF believe is the minimum required to achieve basic literacy¹⁹. We are clearly a long way from achieving the Millennium Development Goal of achieving Universal Primary Education by 2015.

UNICEF have calculated the amount that countries will need to spend in order to meet the MDGs²⁰. They found that almost of all the HIPCs will need to increase spending on education – with larger countries such as Ethiopia needing to spend an extra \$203m, and the poorer HIPCs such as Burkina Faso and Niger needing an extra \$60m. We added these estimates to current level of spending on education, taken from the World Development Indicators 2001²¹. From this, we were able to calculate the total spending that would be required in each of the HIPCs each year if the MDGs are to be met.

Our calculations showed that the HIPC countries will only need to spend \$6.5bn each year in order to ensure that every child gets an education sufficient to ensure basic literacy. While large relative to the incomes of HIPCs, on a global scale this figure is miniscule – representing, for example, less than half of one percent of the projected US defence budget of \$1,600bn over the next five years. And only \$1.2bn of this is additional to what governments are currently spending .

Goal 4: Reducing Child Mortality

- Reduce, by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: Improving Maternal Health

- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

¹⁹ Is EFA affordable? Estimating the Global Minimum cost of 'Education for All'

²⁰ UNICEF did this by: estimating the number of children enrolled in school in 2000; estimating the number of children who will be in school in each year between 2000 and 2015 assuming that enrolment rates don't change, based on projected levels of population growth; estimating the number of children who will need to be in school each year if enrolment ratios move from current levels to 100% by 2015, in a linear fashion; calculating the number of new school places that will be needed each year, by subtracting the total number of children who will need to be in school to reach 100% by 2015, from the baseline scenario; multiplying the number of additional children to be added into school by country specific educational costs relative to expenditure levels in the year 2000; and then dividing the additional costs by 15 to get average annual costs. It should be noted that we take the lower range of UNICEF's estimates, excluding, for example, the capital costs of building classrooms and the recurrent costs of improving educational quality.

²¹ It should be noted that these include all forms of educational spending, i.e. including secondary and tertiary spending. However, in most countries secondary and tertiary spending are small in comparison with primary spending.

Goal 6: Combating HIV/AIDS , malaria and other diseases

- Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
- Have halted by 2015, and begun to reverse, the incidence of malaria and other related diseases.

HIV/AIDS is currently decimating Africa. One in five of all adults in Africa are infected by the virus, while 17 million Africans have died from AIDS since the start of the epidemic. AIDS has so far left 13 million children orphaned, a figure which will grow to 40 million by 2010 if no action is taken²².

Moreover, AIDS is not the only killer. Other diseases such as malaria, TB, childhood infectious diseases, maternal and prenatal conditions and micronutrient deficiencies abound. Average life expectancy in Africa has *fallen* since 1980, from 48 to 47 – and in individual countries, the fall is much more extreme. Life expectancy in Zambia is now only 38 years, down from 50 years in 1980, while Sierra Leone has a life expectancy of only 37 years. And even these figures mask the catastrophic impact on children. In Africa, 161 children out of every 1,000 children will die before their fifth birthday; in Niger, this figure is as high as one in four²³.

Yet, the Global Commission on Macroeconomics and Health has estimated that **eight million** lives could be spared each year if a simple set of health interventions needed to meet the MDGs were put in place.

The Commission, which was chaired by Professor Jeffrey Sachs of Harvard University, was launched by Gro Harlem Brundtland, Director General of the World Health Organisation, in 2000. In a recent report into Macroeconomics and Health, it stated that ‘the vast majority of the excess disease burden [in poor countries] is the result of a relatively small number of identifiable conditions, each with a set of existing health interventions that can dramatically improve health and reduce the deaths associated with these conditions. **The problem is that these interventions don’t reach the world’s poor.** Some of the reasons for this are corruption, mis-management and a weak public sector, but in the vast majority of countries, there is a more basic and remediable problem. **The poor lack the financial resources to obtain coverage of these essential interventions, as do their overnments²⁴.**’

Box 5 shows the key set of health interventions identified by the Commission:

²² Source: ‘Reality Check: The Need for Deeper Debt Cancellation and the Fight Against HIV/AIDS’ Drop the Debt Report, April 2001.

²³ Source: World Development Indicators 2001

²⁴ Report of the Commission on Macroeconomics and Health, Page 4.

Box 5: Required Health Interventions to meet the Millennium Development Goals

- **TB Treatment:** directly observed short course treatment for smear positive patients; directly observed short-course treatments for smear negative patients;
- **Malaria Prevention:** insecticide treated nets; residual indoor spraying
- **Malaria Treatment:** treatment for clinical episodes of malaria
- **HIV/AIDS Prevention:** including youth focused interventions; interventions working with sex workers and clients; condom social marketing and distribution; workplace interventions; voluntary counselling and testing; prevention of mother-to-child transmission; treatment for STDs and mass media campaigns.
- **HIV/AIDS Care:** palliative care; clinical management of opportunistic infections; prevention of opportunistic illnesses; and home based care.
- **HIV/AIDS HAART**
- **Childhood Disease Related Interventions**
- **Vaccinations**
- **Maternity Related Interventions:** antenatal care; treatment of complications during pregnancy; skilled birth attendance; emergency obstetric care; postpartum care.

The Commission also established the costs of scaling up the interventions on a country by country basis²⁵. They recommend that, if the MDGs are to be met, the least developed countries will need to spend an average of \$41 per capita each year, while other low income countries will need to spend \$37 per capita. From this, it is easy to calculate the total required spending in each of the HIPC²⁶.

Our results show that the 39 HIPC^s will between them need to spend \$20bn each year on health if the MDGS are to be met – almost three times their 1999 levels of debt service. This figure may sound large, but it is only slightly more than the \$17bn spent each year in Europe and the US on pet food²⁷. As with education, larger countries will need bigger increases in health spending: As Box 6 shows, for example, Ethiopia will need to spend almost \$2.5bn on health care in order to meet the MDGs, compared to a total expenditure on health of only \$70m in 1999²⁸.

²⁵ The costs were analysed on a country by country basis, taking into account demographic and socio-economic factors. A model was used to estimate the cost of implementing the interventions, the required new investments in training staff and facilities, and the required management and institutional support. The costs of the interventions were then adjusted to reflect the requirements for the process of scaling up interventions. These include a management cost of 15%; an additional 15% for absorptive capacity given the magnitude of resources required; and quality considerations, including a 100% pay increase for staff.

²⁶ The per capita expenditures were translated into 1999 dollars using a dollar deflator taken from the IMF's World Economic Outlook

²⁷ Source: Water Supply and Sanitation Collaborative Council

²⁸ Source: Decision Point paper for Ethiopia, World Bank

Box 6: More Debt, More Death in Ethiopia

Of all the HIPC, Ethiopia has one of the largest needs in terms of health spending – a colossal \$2.5bn per year, compared to spending of only \$70m in 1999. This amount – which totals about 40% of Ethiopia’s GDP – is clearly unaffordable. But prospects for reducing the disease burden in Ethiopia, in which 10% of the population have HIV/AIDS, life expectancy is only 42, and almost one fifth of children die before their fifth birthday, have not been helped by her huge debt burden, which in 1999 stood at almost 90% of her GDP.

Ethiopia finally reached decision point under the enhanced HIPC initiative in late 2001, following the end of her border conflict with Eritrea in 2000. But even after the projected 47% reduction in her total debts, her debt service will remain high – at least \$74m per year for the next 20 years. Prospects for debt sustainability will be further worsened by the colossal amounts of new debt which Ethiopia is projected to contract – debts amounting to more than 10% of GDP in 2001/02, according to the World Bank. It seems that Ethiopia will have more debt, and more death, for many years to come.

The Commission recommends that some of the increase in spending needed should come from domestic revenues. But as they note, ‘for the low-income countries, we still find a gap between financial means and financial needs, which can be filled only by the donor world if there is to be any hope of success in meeting the MDGs²⁹. But ‘there is another method to raise more revenues for health in low income countries: deeper debt relief, with the savings allocated to the health sector³⁰.’

The need for more debt relief is evident. The Commission Report has showed that vast improvements in the lives of millions of people in poor countries are achievable, with an increase in expenditure totalling only 0.1% of GDP of the rich donor and creditor countries. Yet, despite this overwhelming imperative, the poorest countries are still paying debt service of \$8bn per year.

Target 10: Halve, by 2015, the proportion of people without sustainable access to drinking water

As with education and health care, access to safe water is a basic right. Safe water is vital for proper health and hygiene, including the prevention of water borne diseases. Distances travelled to fetch water result in a huge loss in time for poor people, particularly women and children. Yet, **one billion** people currently lack safe drinking water and almost **three billion – half the world’s population** – lack adequate sanitation. **Two million** children die each year from water-related diseases. As the Vision 21 Framework for Action states, this situation is ‘humiliating, morally wrong and oppressive³¹.’

This is the more so, given that the resources required to ensure universal access to basic water and sanitation are comparatively small. World Vision 21, a report produced by partners in the Water Supply and Sanitation Collaborative Council, estimated that providing access to safe water and sanitation will only cost \$25 per rural dweller – \$15 to provide access to safe water, \$10 for rural sanitation and hygiene promotion – and \$75 per urban dweller, of which \$50 is for urban water and \$25 for peri-urban sanitation.

²⁹ *ibid*, page 6

³⁰ *ibid*, page 62

³¹ Vision 21: A Shared Vision for Hygiene, Sanitation and Water Supply p.1

These are additional to the costs currently borne by households and communities. These are one-off costs of providing access to basic water, and do not include the continuing costs, for example of operations and maintenance of current water supplies.

In order to meet the MDG of halving the proportion of people without sustainable access to safe drinking water, our calculations find that in total, the HIPCs would have to spend only \$2.4bn per year on water and sanitation³² – less than Europe spends on alcohol over 10 days.

Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

Slums are defined by the World Bank as ‘neglected parts of cities where housing and living conditions are appallingly poor³³.’ Hundreds of millions of the urban poor in developing countries currently live in unsafe and unhygienic environments where they face multiple threats to their health and security. The tenth millennium development target commits the international community to over-turning this unacceptable situation, and improving the lives of at least 100 million slum dwellers by 2020.

The World Bank have calculated that programmes of upgrading which would provide services to all slum areas in all developing countries could be implemented at a cost of approximately 0.2% to 0.5% of GDP³⁴. When the costs of investment in infrastructure, land acquisition and necessary institutional support are added, the total comes up to around 1% of GDP. Because the MDGs only refer to improving the lives of 100 million slum dwellers worldwide, we take the lower of these estimates, and assume that the

³² In order to calculate the level of spending required to meet the target of halving the proportion of people without sustainable access to safe drinking water, we first took figures of current levels of rural and urban water coverage for 2000, from the World Development Indicators 2001. For some countries, 1990 data had to be used. From this, we estimated the absolute number of people without access to water sources, for both rural and urban areas, in 1999.

We then looked at projected population growth rates for 2015, taken from the World Development Indicators 2001. We assumed that the rural and urban growth rates would be the same. This is probably an over-simplifying assumption, given that we might expect faster population growth in the urban areas, given the gradual trend towards urbanisation. However, this assumption if anything will underestimate the total costs, given that costs of provision of water are estimated to be much higher in urban than in rural areas. Next, we calculated the target water coverage for 2015, which was assumed to halve the proportion of people without access to safe water - in other words, if 60% of the population had access to safe water in 1999, then the target for 2015 would be 80% - so that the proportion lacking access to water was reduced from 40% to 20%.

Taking into account the population projections for 2015, we then calculated the number of people who would have access to water in 2015 if the targets were met. We subtracted the number of people having access to water in 2000 from the number in 2015 assuming that the target is met. This gave us the total number of people who would have to gain access to water over the period.

We multiplied this by the cost of accessing water per person, i.e. \$25 for each person in rural areas and \$75 for each person in urban areas. This gave us a total cost over 15 years, which we then divided by 15 to give an average cost for each year and each country over a 15 year period.

This was added on to current expenditures on water. Unfortunately, it proved very difficult to gain estimates of current levels of expenditure on water, so we had to make an assessment based on regional averages of the share of total budgets spent on the water sector (even if these figures are slightly misleading, we can assume that there would be scope to reallocate within budgets for those countries which spend a lower than average proportion of their budgets on water.)

We had to exclude some of the very small countries, such as Cape Verde, Comoros, Guyana and Sao Tome and Principe from the analysis because of lack of data.

³³ World Bank: Cities Alliance for Cities Without Slums: Action Plan, page 1.

³⁴ Ibid.

HIPCs will need to spend 1% of GDP annually on improving slum conditions. In total, this comes to **\$1.7bn** for all the 39 HIPCs considered.

Other Goals and Targets:

Goal 3: Promoting Gender Equality and Empowering Women

- Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

Target 9: Integrate the Principles of Sustainable Development into Country Policies and Programmes and reverse the loss of Environmental Resources

Providing basic health, education and water to the populations of poor countries is clearly vital and should be given preference over debt service payments. But at the same time, other dimensions of development – such as promoting gender equality and protecting environmental resources, are also needed if development is to be sustainable in the long run.

Unfortunately, however, these goals are inherently difficult to cost, and are therefore difficult to compare with debt service payments. Promoting gender equality and empowering women will, according to the Zedillo report, require a total yearly sum of \$3bn, but we cannot tell how this will be allocated across the HIPCs and non HIPCs.

It has been estimated that ensuring environmental sustainability will cost **about \$25bn per year alone**³⁵, in addition to the \$40-\$60bn which the World Bank estimates will be needed to meet the other MDGs. While this figure covers all countries, and not just HIPCs, it still implies a significant increase over the figures for the other Goals provided here and gives further evidence for the need to cancel poor countries' debts.

Furthermore, none of the current cost estimates of meeting the MDGs take any account of the impacts of climate change, which will set us back from meeting the MDGs and require greater costs of mitigation. Some of these impacts, real or projected, are summarized below:

- Expert estimates suggest that global warming related disasters could cost a total of \$300bn per year within a few decades;
- During the 1990s, direct economic losses from natural disasters stood at \$63bn per year, a five-fold increase since the 1970s. Weather related disasters account for 98% of all those affected by natural disasters;
- Under global warming, crop yields in Sub-Saharan Africa are projected to fall by 20%, undermining poverty eradication efforts;
- The 1997/8 El Nino storm cost Peru \$2.6bn in damaged infrastructure. In 1997, Peru received only \$490m in aid, but paid out \$3.66bn in debt service, of which more than half was accounted for by interest payments.

Jubilee Research believes, that it is necessary to take account of the costs associated with global warming when considering the current debt problems. As the developed countries are mainly responsible for climate change because of their energy-consuming lifestyle,

³⁵ Source: Presentation by Kristaline Georgieva during a meeting on 'Financing for Sustainable Development', Johannesburg, August 2002

they inflict heavy economic burdens on the developing world. Thus, the developed countries have amassed a huge ecological debt, which – if calculated in monetary terms – might even exceed the debt owed by the developing countries to their rich creditors in a few years. This means, that it is in fact the developed countries, which owe money to the poor countries, and not the other way round! Therefore, if the costs of climate change are accounted for, it becomes clear that the developed world not only has a moral, but a factual duty to cancel the developing countries' debt and to grant them further aid.

Counterarguments

A number of counter-arguments against linking debt relief more closely with the MDGs have been put forward at various times, in particular by staff at the IMF and World Bank. The latest 'Status of Implementation' Report on HIPC, for example, reviewed the option of providing greater debt cancellation in order to meet the MDGs, but concluded that 'there are no reliable estimates of the cost of scaling up debt relief to achieve the MDGs' and that they would 'result in higher overall debt relief to HIPCs and [thus] would clearly lead to higher costs for creditors'³⁶. However, in our view, neither of these points are really valid. Firstly, reliable costings of the resource requirements of meeting the MDGs are already being worked on by international organisations such as the United Nations Development Programme (UNDP.) Furthermore, the fact that substantial additional resources will be needed from creditors should not be used as an excuse for inhibiting debate on the financial needs of debtor countries if they are to meet the MDGs.

Various other counter-arguments have also been put forward particularly by staff of the IMF and World Bank. These include the following:

'Debt relief cannot be linked to the MDGs because the amount of relief that could be provided even with total debt cancellation is not enough to fill the total financing gap of \$50bn per year.' That is, even total debt cancellation would save HIPCs a total of less than \$10bn per year, or what they currently pay in debt service. Given that the financing gap is \$50bn per year, debt relief alone could not provide sufficient additional resources.

The observation that poor countries will need further aid, as well as debt cancellation, in order to meet the MDGs is obviously true. But not walking a step because you cannot walk a mile seems counter-productive – and illogical. Furthermore, the Bank's calculations simply do not make sense. For the \$50bn resource gap estimated by the Bank is for *all* developing countries, not just the HIPCs. Developing countries in total in fact pay very nearly \$50bn in debt service each year, according to the Bank's own figures. However, it must be recognised that simply cancelling all developing country debt would not necessarily channel the extra resources to the countries that need it most.

'New money can be more flexible in resource allocation.' This is an argument that has been put forward by World Bank and IMF officials in consultations with civil society, but is one that is very hard to substantiate. Debt relief is the probably the most flexible form of transfer of resources to poor countries, on the grounds that it provides a pot of money that would have otherwise been transferred out of the country. This money is then available for spending on education, health or other priority areas needed to meet the MDGs. Any aid, whether it is traditional project aid or budget support – where

³⁶ HIPC Status of Implementation Report, September 2002

donors contribute directly to the recipient countries budget – brings with it transactions costs, such as the time spent negotiating with donors. New aid also inevitably rises and falls with the wills of Parliaments in donor countries, making long term planning difficult for the poor country government. Debt relief is much more predictable over the long run and thus brings substantial benefits to the debtor country.

'New aid can be provided by individual countries, whereas debt relief needs multilateral agreement, making it more difficult to achieve.' The centre of this argument is the idea of 'burden sharing' - namely that when debts are reduced, all creditors should take an equal share of the 'haircut.' According to this principle, debts cannot be reduced without agreement across all countries, while any donor is free to provide new aid, regardless of the contributions of other donors. Thus, according to political realities, Bank and Fund staff have argued that new aid is a more realistic mechanism for providing the financing to meet the MDGs.

But what the Bank and Fund fail to acknowledge is that the principle of proportional burden sharing is already being violated within the HIPC initiative, with many of the bilateral creditors, including all G7 countries, providing 100% debt cancellation for HIPCs – well above the levels they would have to provide under a proportional burden sharing approach. Moreover, the Bank and the Fund are themselves violating the approach by using bilateral relief to reduce their own contributions, and therefore the total amount of relief offered to HIPCs³⁷.

Furthermore, multilateral pressure for new money – either in the form of aid or debt relief – is, if anything, likely to be a good thing. The depressing downward trend in aid flows over the 1990s suggests that without multilateral pressure, donors may simply fail to cough up. Recent commitments by the EU and US to increase aid during the UN Financing for Development process would tend to support this view.

'Market access is more important than debt relief in meeting the Millennium Development Goals.' Bank and Fund staff point out that providing duty free access for poor-country exports would do more to help meet the MDGs than would further debt relief. This may be true, but it does not mean that a debt relief strategy should be abandoned altogether. Partly this is again due to political realities: recent moves in the US to impose tariffs on steel and increase subsidies for agriculture, as well as refusal of the European Union to seriously consider CAP reform, suggest that, if anything, the rich world is becoming more protectionist, rather than less. Moreover, debt relief and market access are complements, rather than substitutes. Debt relief can provide governments with the additional resources they need to invest in the areas which are necessary to enable the poor to really benefit from market access and to diversify their export base, such as primary education and rural transportation.

'There will be costs in terms of future access to capital markets for countries which receive total debt cancellation thus undermining future ability to meet the MDGs.' This is an argument which is often used to scupper efforts by poor countries to obtain debt relief and economic justice. The argument is that debt relief today will scare off foreign investors tomorrow, undermining countries' ability to attract the foreign capital which it is believed they need to grow.

³⁷ For more on this point, see our report 'Latest HIPC report brings more bad news for poor countries', Jubilee Research at NEF, September 2002, available at http://www.jubileeresearch.org/hipc/hipc_news/latest190902.htm

There are several points that can be made about this argument. Firstly, the reality is that the poor countries are receiving very little private foreign investment in any case. Net private capital flows to low income countries were only \$4.6bn in 2000, or some 2% of total private capital flows to developing countries³⁸. Since 1990, this figure has fallen both in absolute terms, and as a proportion of total flows to developing countries.

Second, the example of Russia is illuminating. In 1998 Russia defaulted, and by so doing regained the economic initiative needed to return the country to creditworthiness. The return of investors to Russia is an indication that it is not debt write-off as such that deters investors, but the debt overhang.

Furthermore there are reasons to believe that debt relief resources, if assigned to human development will actually promote private capital flows. The major reason for the limited volume of capital flows to poorer developing countries is lack of infrastructure, skills and capacity. Investors are far more likely to go to countries with a good transport infrastructure, an educated population and a reliable power supply. Meeting the MDGs would go a long way towards guaranteeing these conditions.

7. A DEBT RELIEF FOR MDGs PROGRAMME

In this section we outline our proposals for a staged programme for achieving sustainable debt cancellation for the poorest countries. Such a programme of debt cancellation would have to be linked to the achievement of individual MDGs country-by-country. Integrating debt cancellation targets with MDG targets requires a broader, more co-operative exercise than the one we undertake here – and we look forward to further joint work with UNDP staff on this programme. Nevertheless, our assessment of the amounts of debt cancellation needed (outlined in the preceding sections and reports) will be evidence in support of any debt cancellation programme. Under the programme/process outlined below, once agreement has been reached on the amount of debt re-structuring needed, then debt cancellation should be swift. The process in each individual country, could, we suggest, take from 3 months to 2 years. It will all depend on the reliability of data and the settlement of disputes over the accuracy and legitimacy of claims. Debt Relief International, a sister organisation, already does considerable work in building capacity in debt portfolio management in the poorest countries and we would expect them to be part of this process.

First, a word about language. “Debt relief” is an euphemism used by HIPC creditors to describe what is often nothing more than debt-rescheduling. In some cases under the HIPC initiative, “debt relief” has led to *increased* annual debt repayments, as, in return for becoming “good debtors”, sovereign governments have been rewarded with the promise of *future* stock-of-debt cancellation. As a result of ‘debt relief’ therefore, some countries have had fewer *current* resources to devote to development; many more have had only marginal “relief”. To achieve the Millennium Development Goals by 2015 in the poorest, most indebted countries, we at Jubilee Research believe that it is vital, in most of the HIPC cases that immediate *stock of debt cancellation* is offered, to reduce *current debt repayments*. This was in fact the spirit of the original HIPC initiative as devised by the World Bank. IMF intervention in the design of HIPC ensured that debt cancellation was

³⁸ World Development Indicators 2002

often delayed by up to 7 years – as a way of disciplining debtors; and increasing transfers to creditors through so-called IMF “structural adjustment” programmes. The Fund had not considered equivalent measures for disciplining creditors, until it backed the idea of a Sovereign Debt Restructuring Mechanism in November 2001.

As earlier sections of this report have amply demonstrated, since the 1982 Mexican debt default, attempts by *creditors* to single-handedly resolve sovereign debt crises have failed miserably. The reason for this has a lot to do with creditors organised around and within the IMF refusing to recognise the reality of unpayable and uncollectable debts. Another reason is the structural injustice of creditors playing the role of plaintiff, judge and jury in the court of international debt and finance.

It has not always been thus. The most striking example of creditors accepting losses, already referred to in previous sections, is that of the treatment of Germany in 1953, under the remarkable and relatively unknown London Agreement.³⁹ This agreement was forged after an independent central banker was appointed by the Allies to rule on Germany’s debt sustainability – and to propose levels of debt repayments that would allow the German people and their economy to recover from the destruction of war.

Furthermore, as Raffer has shown, some 19th century creditors showed considerable wisdom in restoring debtor economies to economic health before extracting further assets from these sovereigns in the form of debt repayments. Over the last few decades, creditors organised within and around the IMF have failed dismally to restore debtor nations (particularly those in Africa) to economic health – thereby improving their overall human development, their creditworthiness and their ability to repay debts.

So the programme we propose for restoring poor countries to a position where their debt is sustainable and supports achievement of the MDGs, would be radically different from the current programme for “debt relief”.

Principles underlying the Debt Restructuring for MDGs programme:

The following principles, based on those outlined in our report: “Jubilee Framework for international insolvency” should underpin any programme for cancelling unpayable and uncollectable debts and transferring resources to human development goals. The principles are based on the early proposal for a sovereign debtor insolvency framework first outlined by Prof. Kunibert Raffer of the University of Vienna in 1987. His proposal is based in turn, on Chapter 9 of the US legal code, which provides for the insolvency of governmental, as opposed to commercial organisations⁴⁰. (Most other proposals, e.g. those of Prof. Jeffrey Sachs, are based on Chapter 11 as the model).

According to US legal principles, any governmental debt re-structuring process must:

- be based on principles that underpin the rule of law;
- enforce a fundamental principle of the rule of law: that no party can act as judge or jury in the settlement of their own claims;

³⁹ For further information on the London Agreement see the website of the German debt cancellation campaign – Erlassjahr, at www.erlassjahr.org

⁴⁰ Please refer to Prof. Raffer’s website for copies and titles of his publications:
<http://mailbox.univie.ac.at/~rafferk5/>

- be based on reason – not dominance, self-interest and coercion;
- be fair to both the debtor and creditors;
- prevent unequal treatment of different classes of creditors (ie official vs commercial creditors);
- be open, transparent and accountable to the citizens and taxpayers of the debtor community, as well as to creditors. This is after all public, not private debt;
- be overseen and resolved by a body independent of both the creditors and debtor;
- ensure that sustainability of the (sovereign nation's) debt is determined, on a case-by-case basis, through a process of open, independent and considered debate, deliberation and consultation;
- ensure that the costs of restructuring do not fall on either taxpayers or governmental employees – who should have a right to comment on, and even veto, the final “composition plan”.

We argue that the following organisational steps are necessary, at an international level, to ensure the achievement of debt cancellation or debt re-structuring in order to free up resources for achieving the Millennium Development Goals.

First, we propose that the process should be an *ad-hoc, case-by-case* process for resolving the sovereign's debt crisis and determining debt sustainability, similar to other international ad-hoc processes for resolving disputes (e.g. those overseen by the International Chamber of Commerce for the resolution of disputes between TNCs and sovereign governments, and the UN's Commission on International Trade Law (UNCTRAL)). Such ad-hoc procedures should be overseen by the SG of the UN, could be put in place immediately and could take place simultaneously across a range of debtor nations.

Second, under the ad-hoc process, an independent panel or court should rule on the sovereign debtor's petition (see below) for protection from creditors, oversee the proceedings, ensure equitable burden sharing amongst all creditors, and will be charged with a) guaranteeing the human rights of the people of the sovereign debtor nation and b) enforcing the decisions of the court.

Third, we propose that sovereign debtors should have an unconditional right to petition for ‘protection from creditors’, and to set up an independent panel – so that debt sustainability can be realistically assessed; debts cancelled and resources conserved for achieving the MDGs. Such a petition should be based on an assessment by the sovereign debtor that public debt repayments are made at a cost to the human rights or dignity of the people of that country – or to the government's ability to meet the Millennium Development Goals. This petition could initially be presented to the Secretary General of the UN. It must however, subsequently be heard, and agreed, by the independent panel or court.

Fourth, we propose that the Secretary General of the UN should oversee the ad-hoc process of debt restructuring, ensuring that an independent panel is appointed in all the countries that petition for the right to resolve their debt crisis. He should ensure that the panel upholds the human rights of the citizens of the debtor nation, as well as respecting the rights of foreign and domestic creditors. The SG's role will be to ensure that the

process is transparent, independent and fair, by monitoring progress and making these reports public, particularly in the debtor nation itself.

The SG's first task would be to ensure that both the creditors and debtor nominate equal numbers of representatives to the ad-hoc panel; and that these two sets of representatives nominate, in turn, a third party to act as judge/chairperson of the panel. Appropriate nominees could include ex-central bankers or finance ministers with experience of sovereign debt management.

A vital task for the SG will be to ensure a central role for the UN in determining the country's **debt sustainability**. The independent panel's decision on what level of debt repayments are sustainable and in line with the resources needed to achieve the MDGs – will be one of its central functions. Determining the level of debt sustainability will effectively determine the amount of debt that needs to be cancelled to return the sovereign to viability. We suggest that evidence submitted by UN institutions, based on their experience of working in and with these nations, will be vital in assisting the panel, and supplementing evidence from both government and civil society, in order to arrive at a rational and fair assessment of the sovereign's capacity to pay. Such an assessment should not put at risk the human rights of its citizens or its ability to achieve the MDGs.

The SG will have a duty to ensure that relevant experts from

- a) international agencies (e.g. UNDP; UNICEF; ILO and the WHO);
- b) local and international civil society – including parliamentarians; NGOs; trades unionists and faith institutions;
- c) ministers and officials of the debtor government; and
- d) representatives of creditors (IMF, World Bank; Paris Club; London Club) – all submit appropriate and relevant evidence to each individual panel; and are given an opportunity to argue and substantiate their evidence.

Fifth, when a sovereign debtor declares an inability to service debts and seeks a standstill on debt repayments – then that sovereign will inevitably need a) to impose capital controls temporarily and b) obtain interim finance for the period of the re-organisation of its debts. Funding can be obtained from two sources: public creditors or private creditors. In our view only public creditors can provide sufficient working capital for the temporary period during which the debt crisis is being resolved. The IMF, as a multilateral creditor, is the most appropriate institution to provide such finance, and by doing so would help promote equilibrium during the period of debt restructuring. We accept that this interim finance should be granted seniority in repayment. However we argue that the conditions for the repayment of this interim finance should be determined by the independent court or panel; not by the IMF. The court should in turn, protect the seniority of the repayments of this interim finance to the IMF.

Conditionality should be determined by the court in a transparent and participative manner. Experience of the Ugandan Poverty Action Fund shows that transparent, accountable forms of conditionality, undertaken in the full glare of the media, with the active support of civil society in that country; and directed at poverty reduction, are the best way of deepening democratic involvement in government financial decision-making. This democratic accountability in turn, discourages the rampant corruption associated with international lending and borrowing. Such transparent, accountable processes are therefore the most effective way of disciplining sovereign debtors benefiting from debt

relief; ensuring that funds from debt cancellation are not squandered; and preventing future reckless borrowing.

Sixth: *All* the sovereign's publicly guaranteed debts – both domestic and foreign – should be subject to the restructuring process. This must include debts owed to local financial institutions; the private sector; the IMF (other than the interim finance mentioned above); the World Bank and the Paris Club.

Seventh: For the duration of the debt restructuring process, the sovereign will have to temporarily reassert immunity from prosecution by creditors. This immunity should be recognised and respected by the two jurisdictions in which private bondholders/creditors are mainly registered – London and New York. After the debt restructuring process the sovereign could once again waive immunity.

The responsibilities of the panel/court:

a) Determining whether sovereign debts were legally and properly contracted. All claims would have to be verified loan-by-loan, checking that all outstanding claims were legitimately contracted by the sovereign debtor and her creditors. Such a process would e.g. dismiss some of the debts contracted illegally and fraudulently by Argentina's military during the period of 1976- 1983 – debts for which no formal records remain.

b) Involving civil society in this process. The debate about the outstanding portfolio of debts should be a public debate, with parliaments, the media and NGOs scrutinising outstanding debts, to ascertain whether they were properly contracted within the formal procedures of the state. (In some countries, notably Brazil, Nigeria and Tanzania civil society actors have already undertaken public audits of outstanding debts – with a view to exposing the odious and illegitimate nature of much of the debt).

c) Checking whether debts have been retroactively 'nationalised'. In many countries, governments have been forced by creditor cartels like the Paris Club to retroactively assume losses from private lending – initially undertaken without any government guarantees or involvement. In Argentina many multinational companies, with branches in Buenos Aires, arranged for their foreign debts to be nationalised during the time of the military regime⁴¹. The IMF and World Bank have turned a blind eye to such dubious legal practices. These 'nationalised' private debts must be declared null and void.

d) Ensuring symmetrical treatment of creditors: There is no reason why any particular class of creditors, and in particular public creditors like the IMF and World Bank, should be given preferential treatment in an insolvency process. The striking contrast between free-market recommendations made by IFIs and their own protection from market forces, must be abolished. Symmetrical treatment of creditors is more than justified.

e) Capital Flight. The debtor government, with the support of the court, will have to take measures to prevent rich nationals from exporting their assets via the Central Bank, in the form of 'capital flight'. In a radical departure from previous policy, and in a major concession, the IMF has indicated that the 'the imposition of exchange controls for a temporary period of time' would be necessary⁴². We agree. Furthermore, we argue that an international Chapter 9 framework should provide for the possibility of overruling

⁴¹ See 'It takes two to Tango' by Jubilee Plus (the former name for Jubilee Research.)

⁴² Speech by Ms Anne Krueger, 26 November 2001 page 6, para 1.

banking secrecy, if suspicion exists that money was obtained in the first place by criminal activities, such as corruption, theft or embezzlement.

Civil society, will again, at this stage, play a crucial role in exposing such criminal activities in to the members of the court.

f) Protecting the human rights of citizens of the sovereign debtor; and the resources needed to achieve the Millennium Development Goals. It is essential that schemes to protect the fundamental human rights of the citizens of the debtor nation should be part and parcel of every debt workout plan. In an analogy with the protection granted to the population of an indebted municipality by Chapter 9, the money to service a country's debt can not, and must not be raised by destroying basic social services, fundamental to the defence of human rights. Subsidies and transfers necessary to guarantee these minimum rights for the poor, must be defended and maintained. Funds for sustainable economic recovery, and for the achievement of the MDGs, must be set aside in e.g a Poverty Action Fund, and monitored by civil society.

Civil society will have a crucial role to play during these sessions of the independent arbitration court, to defend these human rights. Any international treaty devised to facilitate international insolvency should have these rights enshrined within it.

g) Mandating the final debt workout – or ‘composition plan’. The court would have to bind all creditors, and the debtor, to a debt reduction agreement which is ‘fair, equitable and feasible’; in which losses would be shared; and the debtor nations’ human rights and achievement of the MDGs would be given precedence over bona fide claims.

h) Civil society’s role in shaping the final debt workout plan. As in Chapter 9 proceedings, representatives of government employees and taxpayers of the sovereign debtor nation should be given the right to comment on the soundness of the final plan binding the government and her creditors; and to object to the final debt workout. This is a right that will have to be fought for, as independent panels are established, and their procedures developed.

8. CONCLUSION

It is clear that achievement of the Millennium Development Goals is heavily dependent both on substantial debt cancellation and the provision of additional resources to indebted nations. It is also clear that the necessary debt cancellation cannot be achieved under current creditor-dominated procedures. In this report we have sought to outline the extent of the debt crisis; the inadequacy of current initiatives – and a constructive way forward for achieving the debt cancellation necessary to achievement of the MDGs.