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OPINION

Can debt relief make a difference?

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Efforts to forgive poor countries their debts are speeding up, but it is not yet obvious that they will be a lasting success

HARDLY noticed amid the hullabaloo of the presidential election, America has just given a big (and belated) boost to the international effort to help the world's poorest debtor countries. On November 6th, President Clinton signed legislation that provided \$435m in debt relief for HIPC countries (the ugly acronym by which the Heavily Indebted Poor Countries are known). It also gave America's blessing to the IMF's plans to use the proceeds of some limited sales of its gold reserves for further debt relief.



This was a big breakthrough. Stinginess from America's lawmakers, particularly some Republicans, had long stalled the debt-relief effort, because other countries were unwilling to put more money into the pot until America paid its share. Eventually, however, relentless lobbying by a huge coalition from church groups to celebrities had its effect. (Jesse Helms, the crusty chairman of the Senate Foreign Relations Committee was moved to tears during a visit from Bono, a rock star turned debt-relief advocate.)

With the American contribution secured, cash is no longer a constraint to debt relief. At issue now is whether the process is fast and generous enough to satisfy the anti-debt campaigners, while being cautious and conservative enough to ensure that the money is not wasted.

An assessment of the generosity and effectiveness of the HIPC effort depends on how it is framed. By the standards of many international initiatives it has been remarkably quick. Barely five years ago, the World Bank and IMF still refused to accept that the debts owed to them by poor countries should be relieved at all. Only in 1996 did the Bretton Woods institutions launch the first "HIPC initiative", identifying 41 very poor countries and acknowledging that their overall debt burden (including the international institutions' share) should be reduced to a "sustainable" level—so long as the countries showed a record of several years of good economic policy. A sustainable debt burden was defined mainly in terms of the net present value of a country's debt in relation to its exports.

In 1999, at the behest of the G7 group of rich countries (which were in turn reacting to powerful pressure from anti-debt campaigners), the HIPC initiative was dramatically expanded. The debt sustainability criteria were modified (to give more countries more assistance), and the timetables for offering relief accelerated. Countries with good policies were promised faster relief.

Speed limits

This year, in particular, speed has been at the top of the agenda. So far, Uganda is the only country that has finished its entire debt-relief process. But both the IMF and the World Bank have

promised to get 20 countries to their “decision points”, at which the level of debt forgiveness is determined and countries begin to receive immediate cashflow relief on their debt-service payments, by the end of this year. Including Guyana, whose debt relief was due to be approved by the board of the World Bank this week, 12 countries have so far reached their decision points (see chart).

To fulfil their pledge, the World Bank and IMF must process eight more countries in the next six weeks. The bureaucrats are working frantically on potential candidates, including Guinea Bissau, Zambia, Niger, Gambia, Malawi, Chad, Guinea, Sao Tome and Principe, Madagascar, Ethiopia and Rwanda.

From the officials’ perspective, the debt-relief process has been a great success. Once the 20 countries have been processed, they say that debt relief worth \$30 billion will have been committed. Moreover, they crow, over the past year the G7 countries have pledged to reduce the debts that HIPC countries owe them bilaterally by 100%. And, says the World Bank, countries that have received help so far have seen the net present value of their debt burden fall by an average of 40%.

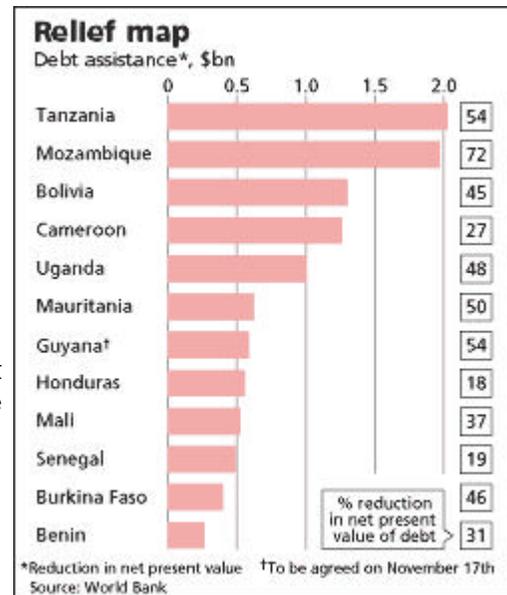
There has also been a big effort to make sure that the poor see the benefits. To qualify, HIPC countries need to prepare a “Poverty Reduction Strategy Paper” (PRSP). Developed in conjunction with non-governmental organisations and other lobbyists for the poor, these blueprints are designed to lay out how a country will fight poverty, and how savings from debt relief will help.

Unfortunately, many of the anti-debt campaigners are not impressed with the rhetoric, or with the record to date. For them, debt relief is not fast enough, generous enough or going in the right direction. Jubilee 2000, the global campaign that was founded in 1996 to demand a total debt write-off for poor countries in the millennium year, reckons that HIPC countries are still suffering under the burden of unpayable debts.

Many NGOs also dispute official claims of generosity. In a recent paper, Oxfam argued that HIPC countries received much less debt relief than the headline figures touted. They argued that some countries could even end up paying more in debt service after the HIPC process than before. In the case of Zambia that is technically true, largely because Zambia has big one-off payments to the IMF looming. But broadly, while it may be right that official figures overstate how much relief HIPC countries will get, it is also true that there has been real progress. Uganda, for instance, has been able to double primary-school enrolment by using the money saved from debt relief. Mozambique expects to save the equivalent of twice its health budget from debt relief. That may not be as much as campaigners have demanded, but it is a lot better than nothing.

A more important question-mark hangs over whether the process is helping poor countries in the long term. Most of them rely permanently on transfers from rich countries. If debt relief results in less aid from individual donors, they might not be better off. Moreover, if the transfers come in the form of cheap loans—the main vehicle through which the World Bank currently doles out money—HIPC countries risk reaching “unsustainable” debt levels yet again. Few people have thought about the financial implications of shifting the World Bank’s resources exclusively towards grants.

Equally, the current vogue for speed could come at the expense of good anti-poverty policy. At one level (of great concern to campaigners) there is the danger that efforts to build a national anti-poverty consensus will be sacrificed in the interests of speed. The PRSP will then simply be



window-dressing done by bureaucrats.

In some countries—notably Honduras and Bolivia—NGOs have made big contributions to this process, although it is not clear that they have been listened to. But elsewhere there has been minimal consultation. The fear is that, if full debt relief is given too quickly, governments will have less incentive to ensure that more people participate in their poverty strategies.

An even bigger risk, feared above all by those working at the Bretton Woods institutions, is that the pressure for speed will give debt relief to countries with bad economic policies. Here the bureaucrats admit that they are pushing through dubious cases in order to meet the deadline of 20 countries by the end of the year. Pressure from campaigners has helped pushed the process this far; but such concerns suggest that it might now be time to make haste more slowly.

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