HIPC

THE DEBT RELIEF OBSTACLE COURSE:
UNDERSTANDING THE HEAVILY INDEBTED POOR COUNTRY INITIATIVE

Some debt relief has already been provided to the most impoverished countries through the IMF and World Bank's current debt relief program, the Heavily Indebted Poor Country Initiative (HIPC). HIPC is not an outright debt cancellation initiative. It is a program designed to lower debts to a "sustainable" level. Because there are so many strict requirements for qualifying to receive debt relief under HIPC, some refer to the program as an obstacle course for impoverished nations.

The HIPC Initiative was founded in 1996 when the World Bank, the IMF and creditor governments were forced to acknowledge the seriousness of the debt crisis. The Initiative was an important acknowledgment that impoverished countries simply could not pay their outstanding debts and creditors needed to work together to address this.

The HIPC Initiative was new in several important ways. The HIPC Initiative involved all creditors; for the first time World Bank and IMF debt became eligible for relief. The Initiative also provided for the write off of all creditor debt stock rather than just yearly relief on repayments – it was a permanent relief deal that could not be reneged upon later. Until HIPC, bilateral creditors would only write off a certain amount of debts owed them: 33%, 50%, or 67%. The concept of committing to writing off an amount of debt that would take debt levels down to a "sustainable" level was a real shift in debt relief policy.

Needless to say, the HIPC Initiative was greeted with skepticism by debt campaigners. It did not include enough countries; it did not deliver enough debt relief; and it delivered the relief far too slowly. The debt crisis was an immediate one, compromising the well being of over a billion people in many countries in the global South.

The HIPC Initiative was controlled by the wealthy creditors and failed to acknowledge the important role creditors played in the accumulation of unsustainable, often illegitimate debts in the South. Instead of accepting their part in all this, creditors presented the HIPC Initiative as an almost humanitarian mechanism to help poor countries that found themselves in a financial pickle due to over-borrowing and poor economic management. Indeed, some countries qualifying for HIPC debt relief had doubts about accepting it because of this derogatory characterization of their situation.

According to the World Bank:

"The principal objective of the Debt Initiative for the heavily indebted poor countries (HIPCs) is to bring the country's debt burden to sustainable levels, subject to satisfactory policy performance, so as to ensure that adjustment and reform efforts are not put at risk by continued high debt and debt service burdens."

QUALIFYING FOR HIPC

There are two requirements to be eligible for HIPC status:

1. HIPC is only for the poorest countries. This is defined by which countries are eligible to receive assistance from the International Development Association (IDA) arm of the World Bank. IDA countries are defined as having a GDP per capita of $885 or less.

2. A country's debt burden must be large enough to be considered unsustainable. HIPC defines "debt sustainability" as a ratio of debt to exports. A country's total debt burden must be more than 150% of its annual exports in order to qualify for relief. This leaves some of the poorest countries, like Haiti, Nigeria and Bangladesh, on the sidelines.

42 countries qualify for HIPC, most of them in Sub-Saharan Africa.

Qualifying HIPC countries

Africa (34 Countries):
Angola
Benin
Burkina Faso
Burundi
Cameroon
Central African Republic
Chad
Comoros
Congo
Congo, Dem. Rep.
Côte d'Ivoire
Ethiopia
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Liberia
Madagascar
Malawi
Mali
Mauritania
Mozambique
Niger
Rwanda
São Tomé and Príncipe
Senegal
Sierra Leone
Somalia
Sudan
Tanzania
Togo
Uganda
Zambia

Latin America
(4 Countries):
Bolivia
Guyana
Honduras
Nicaragua

Middle East (1 Country):
Yemen, Rep. of

Asia (3 Countries):
Lao, Peoples Dem. Rep.
Myanmar (Burma)
Vietnam

THE HIPC OBSTACLE COURSE BEGINS

Once countries qualify for HIPC classification, they must comply with strict macroeconomic requirements prescribed by the IMF, known as Structural Adjustment or Austerity Programs. It takes years to implement these often harmful policies before any debt cancellation is delivered. Countries must also be in an agreement with the IMF to borrow more money in order to remain eligible for debt relief through HIPC.

Water Break - Reaching Decision Point

When a country meets the requirements to the "satisfaction" of the World Bank and IMF, they reach what is called Decision Point. At Decision Point, a country receives interim debt service relief. In other words, what the country pays each year (debt service) is reduced, but the actual amount of debt (debt stock) has yet to be cancelled. Most countries begin to benefit from debt service reduction immediately, putting the savings into health, education and other development goals.

Countries must stay "on-track" with implementing the economic policies required by the IMF in order to continue to receiving this interim debt relief. In at least nine cases the IMF has suspended debt relief because countries were listed as "off-track" with their IMF program. The World Bank also reserves the right to cut off interim relief to a country if they are not following through with their IMF requirements.

The Finish Line- Reaching Completion Point

At what is called Completion Point, countries finish the obstacle course and exit the HIPC program. Many countries take years to get from Decision Point to Completion Point. This is because two things are required to reach the HIPC finish line.

1. Countries must remain "on-track" with their IMF economic conditions, even when those policies can be harmful to domestic industry, the poor and the environment.
2. Countries must design and implement for one year a Poverty Reduction Strategy Paper (PRSP) under the guidance of the World Bank and IMF. See below for more information.

By 2003, fewer than 30 countries reached Decision Point and only a handful crossed the finish line to receive promised debt reduction under HIPC. However, these numbers change frequently. Keep up to date on which countries have qualified or are being held up by visiting:
www.worldbank.org/hipc

What is the Trophy at the HIPC Finish Line?

The goal of the HIPC Initiative is to help countries achieve "debt sustainability." The World Bank and IMF consider a debt that is less than 150% of exports to be sustainable. Therefore, only enough debt is cancelled to bring a country to this 150% debt to export "sustainability" level. In theory, this level of debt reduction would be provided at Completion Point.

Many countries will cross the finish line and still find themselves with "unsustainable" debt burdens as defined by the World Bank and IMF. This is because the amount of debt reduction needed to reach 150% debt to exports, is calculated too early, back at Decision Point, not when they exit HIPC. Because it sometimes take years for countries to reach Completion Point, they are susceptible to external forces like drops in commodity prices or decline in exports that throw off their sustainability ratio. Moreover, many observers have criticized the arbitrary nature of the IMF/World Bank's definition of "debt sustainability." How can any amount of debt, which takes needed resources away from health, education, and water, be considered "sustainable?"

According to the World Bank, $50 billion in debt relief is expected to be delivered through the HIPC Initiative. When completed, HIPC will reduce total debt stock by nearly 50 percent for qualifying countries. However, because many countries are not currently paying on all their debts, this reduction will only cut what countries pay each year by 1/3 on average.

NEW WORLD BANK AND IMF LOANS

Both the World Bank and the IMF recently changed the names of their structural adjustment loans to include the words poverty reduction.

PRGF- Poverty Reduction Growth Facility - IMF

The PRGF is the new name for IMF lending to the poorest countries. A Facility is like giving an IMF Credit card to a country with a certain credit limit; the government then draws what they need in order to follow through with the structural adjustment reforms prescribed. A country may or may not use the full amount, but whatever amount they draw upon then becomes debt to the IMF.

PRSC- Poverty Reduction Support Credit - World Bank

The PRSC is the new name for World Bank structural adjustment loans to the poorest countries. These loans are supposed to be based on the strategy set out in a country's Poverty Reduction Strategy Paper.

PRSP- Poverty Reduction Strategy Paper

Countries are required to write a Poverty Reduction Strategy Paper in order to qualify for debt reduction under HIPC. The idea behind PRSPs is to include governments, civil society and the private sector in planning a national Poverty Reduction strategy. However, all PRSPs have to be "endorsed" by the World Bank (Bank) and the IMF (Fund) in order to go forward. Many critics believe that keeping the Bank and the Fund as the gatekeepers to PRSP will ensure that the same failed structural adjustment policies will continue to be promoted, but under the guise of a "country-owned" poverty reduction plan.

To learn more about PRSP:

"The World Bank and the PRSP: Flawed Thinking and Failing Experiences." Jubilee South/Focus on the Global South, 2000. See www.focusweb.org

Action Aid USA: www.actionaidusa.org
World Bank site: www.worldbank.org/poverty/strategies/index.htm
IMF site: www.imf.org/external/np/exr/facts/prgf.htm
Bretton Woods Project: www.brettonwoodsproject.org

STILL WAITING FOR THE JUBILEE

The limited debt relief released so far was used effectively to put kids in school, save lives with improved health care and implement HIV/AIDS programs. Yet, after years of waiting to see if HIPC will work, the current Initiative failed to resolve the debt crisis in almost every way:

- The relief provided doesn't go deep enough. More than half of HIPC countries continue to pay more on debt than health care.
- Not nearly enough countries are involved. Some of the poorest countries are not included because of the arbitrary debt to export method for qualification.
- HIPC continues to demand that countries implement the same failed SAP conditions in order to get relief.
- HIPC doesn't resolve the loan sharking crisis. Countries are required to be in a loan program with the IMF in order to qualify for debt relief. Every HIPC country continues to need new loans and continues to borrow from the World Bank and IMF.

Restoring right relationships and release of power is at the heart of the Jubilee vision. HIPC perpetuates the domination model of development whereby rich countries retain control over economies in the Global South.