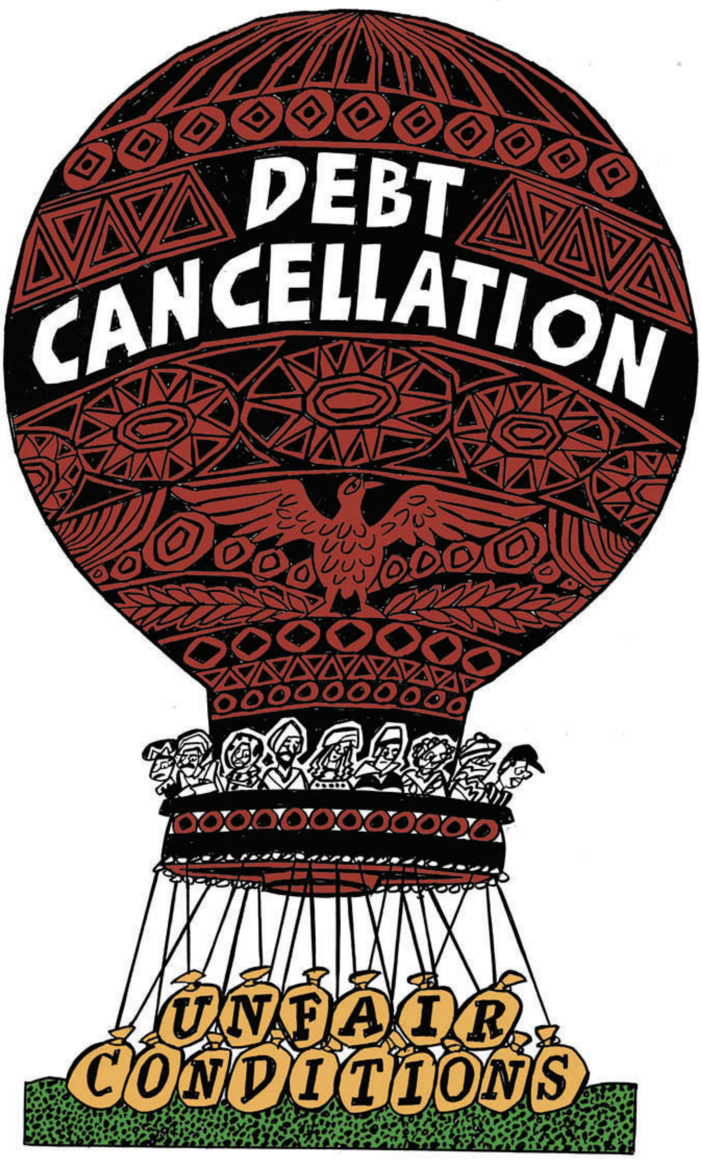
Cut the strings!

Why the UK government must take action now on the harmful conditions attached to debt cancellation



JUBILEE DEBT CAMPAIGN

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Contents

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Introduction

The main international debt relief scheme (the Heavily Indebted Poor Countries initiative, or HIPC) came into effect a decade ago, in 1996. In that time it has offered ample evidence – and prompted considerable criticism – of the harm caused by the strings attached to debt cancellation, that is, of the conditions set by creditors which poor countries must meet if they are to get debts cancelled. Yet in 2006, the practice of attaching these strings persists.

In the face of huge campaigner pressure, the G8 and other rich countries in 2005 finally agreed to cancel more debts for the countries that make it through HIPC; but they did not tackle the conditions attached to this scheme or to debt cancellation outside HIPC. These conditions mean that debt cancellation comes too slowly, to too few countries, and costs those countries – particularly the poorest people in them – far too much.

These conditions, the damaging strings attached to debt cancellation, are the focus of this report. It explains what kind of conditions are now being attached to debt relief, and explores how these conditions undermine democracy, hurt the poor, delay justice, prolong poverty and contradict the promises made by the UK and other rich governments.

- The countries going through HIPC have to meet between 10 and 20 direct conditions in order to get debt relief, some of which require compliance with other programmes which themselves come with at least as many conditions again.

- Many conditions require countries to implement controversial policies regardless of the views of citizens, parliaments or even governments. Gambia is being made to privatise an industry its government had already privatised before and chosen to renationalise.

- Privatisation is frequently forced through by debt conditions, often with disastrous consequences. Of the countries going through HIPC now, Burundi, Chad, Gambia, São Tomé and Príncipe and Sierra Leone have all been told to privatise as a condition of debt cancellation.

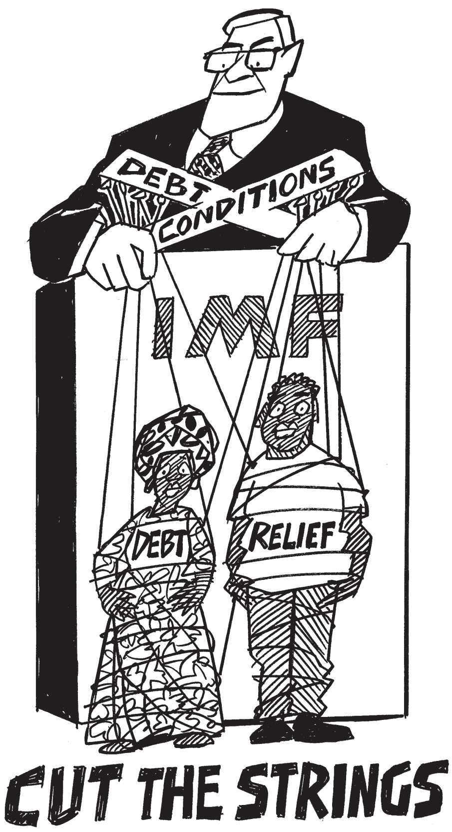
- Inflexible and excessively burdensome conditions are causing appalling delays in delivering urgently-needed debt cancellation. More than half the countries still going through HIPC in September 2006 entered the scheme more than five years ago.

- The seven countries going through HIPC that entered more than a year ago have, since entering, given $1.5 billion in debt payments to the rich world. All but one have had to spend more on debt service than on health.

- Most countries going through HIPC have had debt relief suspended since they entered because of failure to meet IMF economic targets which leading economists consider misguided, unnecessary and frequently harmful.

- The UK government has stated publicly that policy conditions attached to aid are "inappropriate and… ineffective", and the G8 in 2005 promised to let countries determine their own economic development. Yet countries entering HIPC now are still being told they must meet economic policy conditions to get debt cancellation.

The rich world is still demanding huge debt payments at the expense of the poor – often on debts that should not anyway be considered legitimate. Where debts have been cancelled, the money released has already funded the abolition of primary school fees, free basic healthcare, hiring teachers and healthcare staff, improved rural infrastructure, immunisation projects and much more. But these ultimate benefits are in danger of being undermined by the pain of getting to them: debt cancellation is being used as a lever to force through policies chosen by institutions controlled by the rich world, a process that undermines democracy, delays debt cancellation and has often worsened poverty. It is time to **cut the strings!**



1. Cancelling debt, but attaching strings

When it comes to negotiating over the crippling debts that are still draining resources from the poor to wealthy countries, the rich world has all the power. Regardless of the legitimacy of the debts (many, for instance, were incurred through loans knowingly given to corrupt former regimes, or for projects that failed because of bad advice from lenders) any cancellation or relief (that is, a reduction in debt service payments) comes with strings attached by creditors. Most debt cancellation for poor countries happens through international schemes, in which creditors club together to design, control and monitor the process, while debtor countries must do as they are told or face the consequences.

"Many Africans feel [that creditors] are now using debt as a lever to dictate policy to the country."

Our Common Interest, Report of the Commission for Africa, 2005

How do countries get debt cancellation?

There are various ways that debts are cancelled, but two main international routes.

The **Paris Club** is made up of 19 rich country governments. When approached by other (poorer) governments with debt problems, they get together to agree on rescheduling (that is, allowing repayments over longer periods of time) or cancelling debts owed directly to them. 'Conditionality' is a core principle of the Paris Club: it explains this by saying it will only negotiate with countries that are 'on track' with an IMF programme of macroeconomic and structural 'reform' – that is, those countries that are doing what the IMF says.

The **Heavily Indebted Poor Countries** (HIPC) initiative is an international scheme covering bilateral, multilateral and commercial debts, and is managed by the World Bank and IMF. To be eligible, a country must be poor enough and indebted enough; this is measured either by having total debts worth more than 150% of exports or, for countries with export-heavy economies, more than 250% of government revenue, criteria that the head of debt at the World Bank has described as "nonsense".[1] They must also have specific World Bank and IMF programmes in place. To enter the scheme (called 'reaching decision point'), a country must comply with an IMF programme for three years. It then starts getting debt relief: that is, it pays less service on a number of its debts, although no debts are actually cancelled, so relief can be suspended at any time. 'Decision point' is also when 'trigger conditions' are set – that is, the list of conditions with which the country must comply in order to complete HIPC and get some of its debts cancelled for good (reaching 'completion point').

What are the conditions?

The countries going through HIPC now have between 10 and 20 different 'trigger conditions' each. The details vary for each country, but conditions generally include technical reforms of public expenditure management and governance (such as budget tracking exercises), meeting specific targets related to health and education (such as on spending, teacher numbers or vaccination rates), and 'structural reforms'. These latter are used to tell countries how to run various sectors of the economy or the government, for instance enforcing privatisation of certain industries or utilities; liberalisation of trade or financial sectors by demanding removal of tariffs or deregulation; or restructuring particular sectors.

"Debt is a tool of domination used by rich country governments and creditors like the IMF and World Bank. Conditions attached to debt relief and loans are devastating our economies and undermining our choices as sovereign nations."

Joint statement signed by 14 organisations from nine African countries, 2004

In every case, one trigger condition is to progress with the 'Poverty Reduction Strategy Paper' (a plan negotiated with the World Bank and IMF), and another is to stay on track with an IMF programme called the 'Poverty Reduction and Growth Facility' (PRGF). This is vital: if the IMF declares a country 'off track', it cannot reach completion point, and its interim debt relief is suspended. Of the nine countries at 'decision point' in HIPC now, most have been off track with the IMF at some point and four are now: Democratic Republic of Congo, Gambia, Guinea and Guinea Bissau.

The PRGF programmes include many conditions relating to macroeconomic targets. These can cover around 10 different areas, such as minimum levels of growth of the economy, maximum levels of inflation and of public spending, levels of currency reserves and limits on public wage bills. Through these kinds of conditions, the IMF controls how much a country spends – and on what. Each PRGF also requires countries to meet, on average, 13 or 14 structural conditions per year.[2] A 2006 study by the European Network on Debt and Development found that typically one in five of the structural conditions in each PRGF involves privatisation.[3] Others are likely to include, for instance, liberalisation of the financial sector, changes to tax regimes or changes in the structure or management of the civil service.

Many of the conditions attached to debt relief can echo those attached to aid. The same condition may be repeated, or debt conditions may pick out particular aspects of aid conditions – for instance, requiring the sale of government assets in a sector where aid conditions require a full privatisation programme – to give

Why should we accept this injustice where a creditor acts as judge and jury in its own case?

Revd. David Ugolor, African Network for Environmental and Economic Justice, 2005

HIPCs and some of their conditions for debt relief

Countries that have completed HIPC (past 'completion point')
Benin, Bolivia, Burkina Faso, Cameroon, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia have all completed the HIPC initiative. Example conditions:

- **Zambia** had to privatise its national bank in the face of parliamentary and public opposition. It also had to restrict public sector spending through a wage and hiring freeze, leaving it unable to employ 9,000 much-needed teachers.
- **Nicaragua** had to privatise water and electricity: electricity prices rose by 300%, pricing the poor out of the market, and blackouts became frequent.
- **Malawi** had to restrict public spending; it was declared 'off track' after it increased spending when importing grain to stave off a famine.

Countries going through HIPC (past 'decision point')
Burundi, Chad, Democratic Republic of Congo, Republic of Congo, Gambia, Guinea, Guinea Bissau, São Tomé and Príncipe, and Sierra Leone. Conditions they face include:

- Spending restrictions in order to lower deficits and inflation.
- **Burundi**, **Gambia** and **São Tomé and Príncipe** are all having to privatise agricultural enterprises.
- **Sierra Leone** has had to prepare for privatisation of 24 state enterprises, which will include water, power and telecommunication.

Not yet entered HIPC
The following countries are considered 'eligible' for HIPC, but haven't yet met the criteria for entry – so haven't yet had trigger conditions set: Central African Republic, Comoros, Côte D'Ivoire, Eritrea, Haiti, Kyrgyzstan, Liberia, Nepal, Somalia, Sudan and Togo. (Afghanistan may qualify in future.)

these added 'teeth'. This so-called 'cross-conditionality' makes these conditions even stronger – particularly as debt cancellation cannot be revoked once granted, so acts as a very strong incentive for government action.

In 2005 – the year that saw **MAKE**POVERTY**HISTORY** in the UK and the launch of the worldwide Global Call to Action Against Poverty – campaigner pressure led to a new debt deal. The 'Multilateral Debt Relief Initiative' extended the debt cancellation on offer through HIPC. The potential rewards for completing the scheme are now greater, particularly for African countries: by July 2006, Zambia, for instance, will have seen more than 90% of the debt it owed at the end of 2004 cancelled as a result of these debt cancellation schemes.[4] The increased prize at the end gives even more force to the conditions – and makes it even more urgent that the damaging conditions are cut.

2. Undermining democracy

The conditions attached to debt relief undermine democracy, turning debt cancellation from a simple act of justice into a tool of control. By imposing particular policy choices onto poor countries, creditors take away governments' sovereignty and accountability to their own people, and instead make them answerable to unaccountable external institutions for their choice of economic policies, their level of spending on public services, and other crucial political decisions. These are areas in which rich countries carefully guard their own sovereignty – yet they have no hesitation in snatching decision-making power away from impoverished countries.

"Governments are being urged, in effect, to adopt "as their own", policies introduced by outside agencies – without any real autonomy in designing home-grown strategies."

Terry McKinley, United Nations Development Program, 2004[5]

The imposition of these conditions means that the discussions that determine government policy are taking place, at best, between governments and the international financial institutions, rather than between governments and their citizens. In most cases, discussion is extremely limited, taking place behind closed doors between representatives of the international financial institutions and a few government officials, usually from the finance ministry. The World Bank and IMF talk about 'ownership': but this seems to mean pressuring governments to commit publicly to the chosen policies, rather than a genuine attempt to see countries develop their own policies. Support for national decision-making is entirely absent, and, for instance, parliamentary or broader national debate is not part of the process. Rather, a uniform set policies favoured by the World Bank and IMF is pushed through with very little change from country to country, regardless of national circumstances or the existence or outcome of any public debate. Most worryingly, this remains the case even when clear opposition is voiced by citizens, parliaments and even governments. This has been or still is the case in, for instance, Cameroon, Gambia, Mali, Nicaragua, Senegal, Sierra Leone, Tanzania and Zambia.

Pushing sensitive policies: privatisation and trade liberalisation

HIPC, along with other programmes of the international financial institutions, has a murky history of forcing impoverished countries to privatise basic utilities and sensitive sectors. Whilst privatisation may be the correct course in some cases, countries are not given the chance to decide that themselves: extensive privatisation is the policy favoured in Washington DC, and pushed onto low-income countries. There is no doubt that for many of them it has been disastrous.

Of the 29 countries that have gone or are going through HIPC so far, 19 have had to privatise state enterprises in order to get debt relief.[6] These 19 include five of the nine countries at 'decision point' now. (The remaining four have already had to privatise in the context of other World Bank and IMF programmes.[7]) Burundi is having to privatise coffee production, and liberalise trade in coffee and sugar by eliminating trade tariffs. Gambia is having to privatise the government groundnut company, and Chad has been told to privatise its cotton company. São Tomé and Príncipe is having to sell off agricultural estates and prepare for privatisation of the port authority and the state's airport and air security company. Sierra Leone had to pass legislation that will pave the way for privatisation of 24 state enterprises, which will include utilities like water and electricity. But all these policies are highly controversial: their value is not proven and many in these countries are understandably demanding the right to be consulted about policies which will affect their economies profoundly. ActionAid Sierra Leone, for instance, has

"When you borrow, you might not pay just in cash. You also pay through loss of control over financial resources, loss of economic control, and loss of political control. That can be an even higher price."

Charity Musamba, Jubilee Zambia, 2005

Gambia – reversing government decisions

In 2006, Gambia is still a long way off completing HIPC and getting debt cancellation, leaving it paying more than $25 million a year in debt service. It will remain so until it resolves its difficulties with the IMF. One of Gambia's conditions for debt cancellation through HIPC is privatisation of the Gambia Groundnut Corporation (GCC). (Other privatisations being pushed by the IMF cover water, electricity, telecommunications and the Social Security and Housing Finance Corporation.)

However, Gambia has been here before – and then decided to back away from privatisation. In 1993, Gambia privatised the state groundnut company, selling it to a Swiss corporation. The President subsequently described this policy as "a disaster", pointing out that the company was undersold, costing the country $2 million; that the sale led to the loss of more than 10,000 jobs; and that after privatisation production dropped so far that Gambia became a net importer, rather than exporter, of (groundnut-based) cooking oil. He also expressed concerns that the company was abusing its monopoly.

Gambia's experience was echoed by that of Senegal, which was also forced to privatise its groundnut industry and suffered catastrophic loss of food production, income for farmers and economic growth. The Gambian President complained publicly that many African countries "are being obliged to privatise sensitive institutions". In 1999, the Gambian government re-nationalised the GCC. Since then, the IMF has been using debt cancellation to push for the re-privatisation of GCC – in the face of apparent reluctance from the Gambian government.

Despite these precedents, it is possible that privatisation may be the right option for Gambia now. But if this is the case, it must be decided by the people of Gambia themselves. The country is dependent on groundnuts, which are the major product in an agricultural sector that represents nearly a quarter of the economy and, at certain times of year, employs three quarters of the workforce. But still crucial decisions about the future of the sector are being decided not by the government, parliament and citizens, but by the IMF – and enforced by the threat of withholding debt cancellation.

Sources: *The Gambia: 2005 Article IV consultation – Staff Report*, IMF, 2006; *HIPC Status of Implementation*, IDA and IMF, 2005; Interview with the President of Gambia, World Investment News online, 2000; D. Dembele, *Debt and Destruction in Senegal*, WDM, 2003

complained that "The whole process of water privatisation is covered up and not in the public domain". These policies should not have anything to do with debt cancellation, and should certainly not be attached as conditions to debt relief so as to force them onto unwilling governments, parliaments or populations.

True accountability

It is vital that the funds released through debt cancellation are transparently used and that citizens are able to hold their own governments to account over how they spend this money. This requires strong institutions, vibrant public debate, and a robust and participatory national policy-making process with the active involvement of parliaments and informed citizens. Imposing economic policies, technical reforms and poverty-reduction strategies from outside undermines, rather than fosters, the development of these necessary elements. Instead of doing their part by providing timely, accessible information about loans and debt relief to the media and civil society, the international financial institutions marginalise democratic processes.

Despite this, campaigners and social reformers in indebted countries are working hard to hold their governments accountable: these efforts should be supported. Jubilee Zambia, for instance, has been running a long-term campaign

"The [Angolan] authorities have made it very clear that their relationship with the Fund has faced a number of problems. There seems to be the view that the Fund staff come here with pre-prepared briefs and positions, and do not really take into account Angola's economic and social situation or how the economy functions."

Peter Gakunu, Alternate Executive Director to the IMF (Kenya), 2005

for legislative reform to ensure parliamentary scrutiny before the government takes out any foreign loans. They were successful in persuading the Zambian government to announce, in early 2006, a 'Debt Reform Plan', in the context of broader Public Expenditure Management and Financial Accountability reforms. The plan aims to "strengthen debt management capacity" and "improve governance as it relates to loan acquisition".[9] The work of the Uganda Debt Network, meanwhile, focuses on: a Budget Advocacy Initiative which campaigns for a pro-poor budget set after public debate; on community monitoring of government action and expenditure; and on running a national governance and anti-corruption campaign.[10] These organisations are keen to work with the international community to strengthen their work and campaigns, but they oppose the kinds of conditions imposed by the World Bank and IMF. Their efforts, and those of others to build strong and informed national debates around poverty, must be supported, rather than bypassed and ignored. Imposing policies from outside undermines democracy and accountability rather than strengthening it.

"Key economic policies continue to be imposed by both the World Bank and IMF as conditions for receiving debt relief and new loans, with the Boards of the Bretton Woods Institutions [World Bank and IMF] retaining power of veto over all measures including those in Poverty Reduction Strategy Papers. We call on the Bretton Woods Institutions and their principal shareholders to ensure that the democratically elected representatives of recipient nations are the final arbiters of all economic policies in their countries."

International Parliamentarians' Petition for Democratic Oversight of the IMF and World Bank, 2004 onwards, currently signed by more than 1,000 parliamentarians from over 50 countries.[8]

3. Hurting the poor

The World Bank and IMF claim that the policies forced through by conditions on debt relief or aid are necessary to achieve economic growth and therefore tackle poverty. Yet these policies have often failed either to secure growth or to reduce poverty (and some anyway point to evidence that even if the former is achieved it does not guarantee the latter[11]). On the contrary, politicians, campaigners and economists are among those pointing out that the impact of debt conditions on the poor, particularly of the macroeconomic and structural conditions, has often been disastrous.[12] But still these institutions have a rigid view of 'the right way' to do things – including shrinking the state, opening markets, keeping public spending low – and rule out alternatives, whatever the evidence. Whilst these kinds of policies can be hugely profitable for the economies of the North, they can be incredibly damaging for the countries in question.

"The HIPC program is riddled with conditions such as privatization, indiscriminate trade liberalization, opening up markets, and fiscal and monetary targets. These conditions have devastated our economies long enough. Debt cancellation must come without any economic conditions attached."

Joint statement by 14 organisations from nine African countries, 2004

Tightening economies, tightening belts

The conditions that the countries now inside the HIPC process have had most difficulty meeting are the macroeconomic programmes set by the IMF. Of the seven countries now in HIPC that entered more than a year ago – Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea Bissau, São Tomé and Príncipe and Sierra Leone – all have had debt cancellation delayed by problems with meeting IMF prescriptions on how to run their economies. The programmes require them to shrink budget deficits or increase budget surpluses – which generally involves restricting public spending – and to lower inflation very rapidly. Whilst of course no country wants to have excessive deficits and very high inflation, the IMF's very restrictive targets are condemned as misguided and even harmful by many economists and development specialists. For instance, Jeffrey Sachs of the United Nations Millennium Project and Columbia University, has described IMF and World Bank policies as "belt tightening for people who cannot afford belts".[13] This tightening, pushed through debt cancellation conditions as well as other programmes, is drastically and dangerously reducing the money available to poor countries to spend on their people.[14]

In their PRGF programmes, with which they must comply in order to get debt cancellation, Burundi, the Democratic Republic of Congo, Congo and Sierra Leone all had targets for their 2005 budget deficits which were lower (in terms of a percentage of GDP) than the US or UK managed to achieve that year. These kinds of targets require restricting spending, in countries which need huge investment to have a chance of meeting their people's needs. The IMF says that, despite the pain, this is necessary to achieve financial stability – but others dispute this. Nobel Prize-winning economist Amartya Sen, for example, accuses the IMF of "anti-deficit radicalism",[15] whilst a senior adviser at the United Nations Development Program complains of "deficit phobia" which "needs clinical treatment".[16]

Inflation is another target of the IMF – again with painful results. Chad and Republic of Congo, for instance, are being told to lower inflation to 3% and 2% respectively to get debt cancellation. (Meanwhile, average inflation in the US in 2005 was 3.4%.) But the United Nations Development Program has pointed out that "there is no strong evidence that very low inflation is either pro-growth or pro-poor". Referring to usual IMF inflation targets of around 3 to 5%, it has argued that these "unnecessarily restrictive inflation targets are still hampering growth and employment generation".[17]

"While the cancellation of our debt will free resources urgently needed to deal with the country's pressing developmental needs, we are concerned that, without the policy space to determine how we apply those resources, … the benefits to be accrued from the gesture will not reach the poor."

Steve Manteaw, Integrated Social Development Centre, Ghana, 2006

Lowering inflation and reducing deficits means that countries must spend less. These restrictions can have absurd outcomes. The African Network on Debt and Development (AFRODAD) has reported that the IMF refused to allow Zambia to employ more healthcare workers even when the Canadian government offered to foot the bill for five years – because to do so would have meant exceeding IMF spending ceilings.[18]

The impacts of these kinds of policies are clear. Less public spending (and often there is a specific requirement for less spending on wages) means employing fewer public servants: that is, fewer nurses, doctors, teachers or police. It also means cutting back or charging for public services, meaning the poorest cannot access them. Another clear result is a 'brain drain', when the lack of jobs or opportunities for higher education drives qualified people – and those trying to get qualified – to rich countries. Restricted wages in the public sector also contribute to low-level corruption, when policemen, customs officials, health officials or others in the public sector are unable to earn enough to support themselves and their families, meaning that some resort to taking bribes in order to survive.

"Malawi wasn't given debt relief for reasons NGOs from Malawi thought were quite unfair. We missed out because donor countries did not meet their commitments to support the budget, so the IMF decided we were 'off-track'. That led to our government borrowing, to feed the people: it did not have a choice. That meant losing out. We are still waiting."

Collins Magalasi, ActionAid Malawi, July 2006

Malawi – tighter spending in the midst of crisis

After a long wait, Malawi finally completed the HIPC process in August 2006, nearly six years after entering the scheme. In the interim, it had to deal with a severe food shortage, caused by drought, and an ongoing AIDS crisis, both of which have prompted calls from the UN for massive donor assistance. Yet the IMF response has been to demand that Malawi "contain expenditures" in order to get any loans or debt relief, and to punish Malawi for perceived over-spending.

Malawi is one of the poorest countries in the world. Average life expectancy is just 40, and around one in seven adults is HIV positive. But Malawi has less than 200 doctors in the whole country – that is, one doctor to every 88,321 people, compared to one doctor for every 600 people in the UK. It is not that Malawi has never trained any doctors; it is rather that the shortages in the health system and Malawi's inability to pay them – because of lack of resources and IMF-imposed spending restrictions – has driven them elsewhere, many to the UK. The lack of doctors contributes to Malawi having, for instance, one of the highest rates of maternal mortality in the world.

Meanwhile, Malawi has been experiencing another emergency: a food crisis, brought on by drought, which has threatened to bring widespread starvation. To avert famine and deal with the crisis, the government had to import extra grain, placing yet more strain on already stretched finances.

But the IMF, rather than increasing the resources available to Malawi by agreeing to debt cancellation, instead declared it off track because of government spending going beyond the budget. It suspended even interim relief on debt payments, and put off debt cancellation still further. This was despite the IMF's earlier acknowledgement of "the severe impact of drought relief operations on government budgets" and recognition that external donor support in the face of the food crisis was "significantly lower than anticipated".

In 2004, Malawi paid out $70 million in debt service. To get back on track and qualify for debt cancellation, Malawi was told to maintain a primary budget surplus, that is, spend less than is coming in from taxation and other sources. This may meet the IMF's idea of what makes a stable economy, but it does not provide for the needs of Malawi's people.

Sources: *Malawi: First Review Under the Three-Year Arrangement under the Poverty Reduction and Growth Facility – Staff Report*, IMF, 2003; *Statement by IMF Staff Mission to Malawi*, IMF, 2004; *World Development Indicators*, World Bank, 2006, *World in Figures*, The Economist, 2006

Privatisation and liberalisation

As explained above, more than half the countries currently going through HIPC are having to privatise state enterprises. In Sierra Leone, for instance, the privatisation programme being pushed through HIPC conditions covers 24 enterprises including basic public utilities such as water and electricity. But the experiences of other countries that have been made to privatise these services have, in many cases, been of dire consequences for the poorest. Countries such as Bolivia, Ghana, Guyana and Tanzania have all had to privatise water, and have experienced price hikes, worsening services and reduced access for the poorest.[19] Privatised utilities are almost always bought by companies based in the rich countries of the North: some have made huge profits from privatisations in the South – often at the expense of a decent service for users – whilst some newly privatised enterprises have failed disastrously, again leaving users without the services they need.[20] Of the countries going through HIPC now, Burundi, Chad, Gambia and São Tomé and Príncipe were all told to carry out privatisations in the agricultural sector. But state agricultural enterprises often provide subsidies and guaranteed buyers for small-scale farmers who, without these supports, cannot make a living. When these supports are removed, it is large scale agro-businesses (again, usually Northern-owned) who are in the best position to take advantage of the new system. State enterprises may cost the government money, but they also provide a safety net for the poorest – and in countries with limited infrastructure or capacity to regulate private enterprises, they can be a far better alternative than the unregulated private monopolies often brought in, through complex and expensive processes, by the privatisation-mania of the international financial institutions. A loss of state support hits the poor hardest.

Trade liberalisation is being pushed to a lesser extent through conditions on debt relief and cancellation – perhaps because so many countries have already been successfully forced to liberalise trade – but is still a source of concern. The requirement that countries such as Burundi and Mali eliminate import tariffs and other trade restrictions – whilst there is no such requirement placed on rich countries which don't have to listen to the IMF – leaves them vulnerable to having heavily-subsidised products from the North dumped on their markets, leaving their own producers unable to compete.

"IMF conditions are especially objectionable because they are often so ill-suited for the country... In virtually every case where they were tried, IMF policies worsened the downturn."

Professor Joseph Stiglitz, former Chief Economist at the World Bank, 2006

Admitting mistakes – but not remedying them

The World Bank and IMF show signs of recognising that some of the policies they have imposed have failed. A senior staff member at the World Bank, for instance, stated at a meeting in April 2006 that there were "certainly strong examples of where it [water privatisation] hasn't .. resulted in better services".[21] But the Bank seems unwilling to move from this to an acceptance that perhaps the policies it is currently imposing might also be flawed, and that perhaps it does not know best after all. Both the IMF and World Bank are claiming that they are imposing less 'structural conditionality' (conditions like privatisation and trade liberalisation). But this claim seems to be true only where they have already succeeded in pushing through the reforms they want. And they are still imposing strict limits on what countries can spend. It is important to ensure that countries entering HIPC in future, or going through HIPC now and having new IMF programmes designed, do not have debt cancellation used against them as a tool to restrict spending or push policies that may harm their poorest people.

"Most of the conditionalities require debtor-countries to expose the very kernel of their economies, such as agriculture and other strategic but nascent industries, to market forces when it is obvious that such classical, efficient markets do not exist."

African Economy magazine, May 2005

4. Delaying justice and prolonging poverty

Delays

HIPC has now been running for 10 years. Today, 40 countries are counted as HIPCs – that is, as having (or, if they have already completed the HIPC process, having had) debt at such a high level that even the World Bank and IMF recognises that it is 'unsustainable', that the countries simply can't afford to pay. Yet in the 10 years of HIPC since 1996, only 20 of these countries – just half the eligible total – have completed the scheme and won the prize of debt cancellation. A further nine have entered, and got some interim debt relief, but not yet completed the scheme. Another 11 have yet even to enter. All 20 will have to comply with onerous conditions before debt cancellation is granted.

Three years into HIPC, in 1999, the rich world bowed to campaigner pressure and promised, among other things, to make the HIPC process "faster". As a result, the requirement for a fixed three-year track record to complete HIPC was removed, and instead the scheme adopted a "floating completion point", which meant that countries could complete the scheme whenever they were judged to have met the conditions. This has not meant a faster process for most countries: five of the nine countries now going through HIPC have already waited more than five years since entering. The cause of the delays is the conditions attached: the controversial, harmful and undemocratic demands of the rich world.

"The time frame for any public policy should be determined by the gravity and urgency of the situation it is meant to address. Current debt relief packages do not seem to be moved by desperate poverty situations in many HIPC countries."

Jack Jones Zulu, Jubilee Zambia, 2006

Suspensions

Most of the delays to impoverished countries' progress through HIPC have been due to problems with the IMF conditions. Guinea, for example, had already years ago met conditions relating to: implementing a 'Poverty Reduction Strategy'; improving health and education outcomes; and reform of governance. But it has been waiting years for debt cancellation – and is far off qualifying – because of what the IMF complains are its "highly expansionary" economic policies.[22] When countries go off track with the IMF, they do not just see their promised debt cancellation recede further into the future, they also have their interim debt relief – the reduction on debt service payments that is granted when they enter HIPC – suspended.

"Under HIPC, you have a lot of countries languishing around, waiting for debt cancellation."

Manager at the World Bank Independent Evaluation Group, 2006

Four countries are currently off track with the IMF – Democratic Republic of Congo, Gambia, Guinea and Guinea Bissau – which means that debt cancellation is a long way off, and their interim assistance suspended. Gambia, for instance, where average income per person is the purchasing equivalent of $0.77 a day,[23] has been in the IMF's bad books since 2001. In that time it has paid out $67 million more to the rich world in debt service than had originally been promised under HIPC.[24] A major reason for this delay and severe punishment has been Gambia's apparent pursuit of expansionary fiscal policies: in 2003, the IMF accused it of "an insufficient commitment to contain public spending".[25] But in that same year, it had to spend more on debt service than on health and education combined.[26] So far, Gambia has had a six year wait for promised debt cancellation – and there is a longer wait to come.

This has also been a problem for countries now back on track with IMF, but which have suffered delays getting there. Delays and suspensions have drained them of much-needed funds. Overall, the countries that had entered HIPC (passed decision point) by the end of 2005 have paid the rich world $1.5 billion in debt service

"Fewer countries have reached completion point than should have done because they have not met the conditions - there should have been more flexibility."

Dr Donald Kaberuka, Rwandan Finance Minister (now President of the African Development Bank), 2004

Debt service paid since countries entered HIPC:

	Date of entering HIPC (ie reaching decision point)	Debt service paid from year of entering HIPC to 2006	Debt service per person
Burundi	August 2005	$85 million	$12
Chad	May 2001	$226 million	$25
Democratic Republic of Congo	July 2003	$426 million	$8
Congo	March 2006	n/a	n/a
Gambia	December 2000	$136 million	$136
Guinea	December 2000	$496 million	$55
Guinea Bissau	December 2000	$52.8 million	$26
São Tomé and Príncipe	December 2000	$25.2 million	$165
Sierra Leone	February 2002	$76 million	$15
TOTAL		**$1.5 billion**	**$17**

Debt payment figures from *HIPC Status of Implementation Report*, IDA and IMF, 2005
Population figures from *World Development Indicators*, World Bank, 2006

whilst going through the scheme. In all but one case, they have been spending more on debt service each year than on health.[27]

Justice deferred?

These delays are not just unacceptable insofar as they leave in place a state of poverty which even creditors cannot fail to recognise as an emergency – they also prolong the injustice of countries servicing debts which are not anyway legitimate claims. Many countries are paying huge sums out on debts which are arguably illegitimate. This can include debts on loans knowingly given to corrupt or oppressive former regimes, often to buy political support during the Cold War. Some loans may have funded useless projects, which benefited consultants and contractors in Northern countries but not the population of the debtor country. Others were given on extortionate terms, which in domestic law would not be enforceable. In all these cases, there was obviously never going to be any benefit to the people at whose expense the 'debt' is now being repaid.

Some countries with illegitimate debts are not even considered eligible for debt cancellation schemes: South Africa, for instance, is still paying off $22 billion of debt incurred by the oppressive apartheid regime.[28] Yet the demands of justice do not feature as criteria for deciding which countries get debt cancellation. Many HIPCs, such as Sierra Leone or Democratic Republic of Congo, for instance, could have a claim for greater or speedier cancellation on the grounds of the dubious legitimacy of debts. The debt crisis is an emergency, and debt cancellation is an act of justice. The time for this act is now.

"While welcoming the HIPC initiative, my Delegation also recognizes that it is a limited initiative, which places very exacting conditions on the poorest countries before they receive benefits. The toughness of these conditions is recognized by all and thus gives greater urgency to appeals for a more rapid and flexible application of the initiative. This urgency is even greater when one considers that it is the poorest sectors in each society which bear the heaviest burdens of delays and postponements."

Vatican representative to the United Nations, 1997

Sierra Leone – putting off justice

Sierra Leone is one of the poorest countries in the world. The average daily income per person is the purchasing equivalent of just $0.56. Sierra Leone's poverty was hugely increased by a brutal civil war: half its population is displaced, and infrastructure was ravaged. Average life expectancy is around 40, and less than one third of the adult population can read or write. However, the Sierra Leonean government is struggling to improve the situation. In 2006, the UK Department for International Development praised Sierra Leone's efforts over the last few years, saying that, "the conflict is over, elections have been held, and the new Government is committed to development and fighting corruption."

But despite its clear need and recognised efforts, the creditors have not been doing their part. Sierra Leone has been waiting for debt cancellation for years, after finally entering the HIPC scheme in February 2002. In 2005, it paid $27 million in service payments – equal to more than 70% of the government's annual health budget – on a total external debt of $1.7 billion.

But this debt is arguably one for which creditors should take more responsibility than the poor of Sierra Leone. In 1970, Sierra Leone's finance minister resigned in protest at government corruption. (Five years later he was executed.) In his resignation letter, he set out details of loans from rich countries for suspect 'development' projects and how these were being siphoned off. The World Bank paused briefly to consider whether it should stop lending to Sierra Leone; then it, and other creditors, carried on lending. This corrupt regime, supported by foreign money, stayed in power for nearly 20 years – and it is widely recognised in Sierra Leone that this corruption was a major factor in fuelling Sierra Leone's appalling civil war.

Now, as Sierra Leone is trying to pull itself back together the war, it is still servicing debts to lenders that knowingly lent into corruption in the past. In order to get debt cancellation, it has to spend years meeting the demands of creditors, such as for widespread privatisation, including of water and other services. After long delays, Sierra Leone should complete HIPC and get debt cancellation before the end of 2006: whenever it comes it will be long overdue.

Sources: *World Development Indicators*, World Bank 2006 and World Bank country data; A. Forna, *The West must own up to its part in African corruption*, Independent March 2005; *HIPC Status of Implementation Report*, IMF and IDA 2005; *Eliminating World Poverty: making governance work for the poor*, DFID 2006; World Bank Health, Nutrition and Population data.

5. Breaking promises

In March 2005, the UK government announced a new policy on the conditions it will attach to its aid. It signalled an important shift in thinking and a response to the concerns about conditions raised for many years by campaigners, including a recognition that policy conditions were not 'appropriate', and do not anyway work as a way to encourage policy change. The government's statement included a promise not to attach any more policy conditions to the aid it gives directly to poor countries, and singled out privatisation and trade liberalisation in particular as the kind of areas in which it would avoid forcing policies onto impoverished countries. Many campaigners welcomed the news.

In July 2005, there seemed to be another important step forward, when the G8 club of the world's most powerful economies included an important statement in the final communiqué issued at the end of their summit in Gleneagles, Scotland. Paragraph 31 of the communiqué emphasised that developing countries should "take the lead on development" and stated that they "need to decide, plan and sequence their economic policies to fit with their own development strategies".

However, campaigners – and those in new HIPC countries – waited in vain to see these promising words turned into concrete changes in the strings attached to debt cancellation. The UK's promise related only to conditions on its own aid – not to debt relief or the aid it gives through the World Bank and other multilateral institutions. But aid given via multilateral organisations amounts to 40% of all UK aid, a total of $1.8 billion last year.[29] If the UK believes that, on principle, it is wrong to impose certain kinds of conditions, then this holds regardless of what means is being used to impose the conditions. If it is "inappropriate and… ineffective for donors to impose policies", then donors should cease doing so whether through aid or debt relief, and whether through bilateral or multilateral programmes. Some would argue, in fact, that it is even more 'inappropriate' to impose policies via debt cancellation: debt cancellation – a commitment to stop taking money from an impoverished country – should not be seen as an act of generosity, in return for which the rich world can legitimately make demands of indebted countries, but as one of justice and restitution.

Yet since the UK admitted that policies should not be imposed, and the G8 promised to let countries decide their own policies, there has been no impact for impoverished countries seeking debt cancellation. The UK points to new World Bank guidelines around conditions: but these do not live up to the UK pledge, and the countries which have entered HIPC since these statements were made – Burundi in August 2005 and the Congo in March 2006 – face more or less the same conditions as those which entered before, including privatisation and trade liberalisation conditions for Burundi.[30] Despite the fine words, it has been business as usual for the rich world. But they must do as they promised, and cut the strings attached to debt cancellation.

"We will not make our aid conditional on specific policy decisions by partner governments, or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or trade liberalisation)…. We believe that it is inappropriate and has proven to be ineffective for donors to impose policies on developing countries."

UK Department for International Development, 2005

Burundi – more of the same

Burundi formally entered the HIPC initiative in August 2005, five months after the UK released its new policy on aid conditions, and one month after the G8 leaders signed the Gleneagles communiqué saying countries should decide their own economic policies.

Burundi's conditions to reach completion point include selling off state interests in the coffee industry, along with staying on track with an IMF programme that requires the launch of privatisation in the financial, industrial and other sectors, and liberalisation of trade in coffee and sugar.

However, these are precisely the kinds of policies that the UK said should not be imposed, and that the G8 said that countries should decide for themselves. Liberalisation of trade and markets is a sensitive policy, with a poor track record in many impoverished countries. For instance, World Bank and IMF requirements that coffee-producing countries liberalise have meant an end of controls on supply and exports, disbanding of state trading boards and encouraging increased production and exports. The end result has been a catastrophic drop in prices, which has allowed company profits to stay high while the poorest suffered. Oxfam has described this as a "stunning policy failure" by the World Bank and IMF, and complained of "dereliction of duty" by the rich world and their companies. Removal of import tariffs on sugar can leave African countries vulnerable to yet more dumping of heavily-subsidised European sugar, sold at artificially low prices with which local producers cannot compete. These dangers are exactly why trade liberalisation must not be forced through conditions: it should be left to Burundi to decide whether, how and when to liberalise, taking into account the situation of its own consumers and producers. This is precisely what the G8 promised – and is failing to deliver.

UK government representatives have told Jubilee Debt Campaign and others that they raised concerns at the World Bank about privatisation conditions for Burundi, but that, since they got no support, they went along with the majority view. This is not enough – the UK has taken a principled stand in setting its own policy, and must see this policy through.

Sources: *Burundi: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility – Staff Report, Memorandum of Economic and Financial Policies for 2005*, IMF, 2005; *Burundi: Enhanced Initiative for Heavily Indebted Poor Countries – Decision Point Document*, IMF and IDA, 2005; P. Hardstaff, *Treacherous Conditions*, WDM 2003; C. Gresser and S. Tickell, *Mugged: poverty in your coffee cup*, Oxfam 2002; K. Watkins, *Dumping on the World: how EU sugar policies hurt the poor*, Oxfam 2004.

The British way

The UK government has had an important role in pushing forward debt cancellation: it played a leading role in securing the debt cancellation agreed at the 2005 G8 summit, and, based on a recognition that the summit did not go far enough, has now put in place its own initiative to cancel more multilateral debt on a unilateral basis. However, this initiative is delivering only a tiny part of what it should – because the conditions attached are limiting the initiative to only a fraction of the countries it is theoretically open to. On paper, the 'UK Multilateral Debt Relief Initiative' offers a refund of the 'UK share' (taken to be 10%) of multilateral debt payments to 27 low-income countries outside the HIPC initiative, as long as they have 'robust public expenditure management'. In justification of this, UK Chancellor Gordon Brown states his belief that at least 67 countries need debt cancellation, and wrote in early 2006 that "A post-Gleneagles agenda should as a matter of urgency, include full debt relief for not 38 [the number of countries then eligible for HIPC] but all the world's poorest countries."

However, the way that the UK government is assessing which countries have sufficiently strong public expenditure management systems – and therefore which get into this scheme – is by making it conditional on having a World Bank grant called a Poverty Reduction Support Credit (PRSC). But PRSCs do not simply assess expenditure systems – on the contrary, they come with many conditions attached, particularly including privatisations.[31] This not only contradicts the UK's stated position on policy conditions, it also means that an insistence that debt relief for "all the world's poorest countries" should be delivered "as a matter of urgency" translates into a UK policy that is delivering additional debt relief only to another four countries outside HIPC – Armenia, Mongolia, Sri Lanka and Vietnam – with the rest left hanging on unless and until they jump through all the hoops required for a PRSC.

Stringing the poor along

These experiences seem to show that the G8 countries have no intention of sticking to the promise they made at Gleneagles to let countries determine their own economic policies. Furthermore, they indicate that the UK is failing to make its position on aid conditionality consistent with its participation in international schemes like HIPC. The UK has gone much further than most other countries in recognising the problems with aid conditions (Norway is another notable example), but campaigners – particularly those in the South, who are directly affected by conditions – are frustrated that this important first step is not being taken further. The UK needs to do much more to ensure that its position on aid conditionality is carried through consistently in relation to both aid and debt relief, at both bilateral and multilateral level. They and the other rich governments of the G8 must also live up to the statement they made at Gleneages, and cease imposing economic policies on impoverished countries through debt relief.

"It is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people."

Paragraph 31, 2005 G8 summit communiqué on Africa

Cut the strings!

Jubilee Debt Campaign, in partnership with civil society organisations and social movements throughout the world, is calling on the UK government to cut the strings attached to debt cancellation. This must include not only the schemes it runs unilaterally (such as the UK Multilateral Debt Relief Initiative) but also the international schemes in which it takes part. The UK should put real pressure on the international financial institutions to cut these strings, including by withholding funding until there is an end to the use of such conditions linked to debt relief, and give the money to poor countries by other means.

For far too long, the rich world has demanded whatever it wants in exchange for debt cancellation. The impact has been appalling in the South.

We recognise the concern that funds released by debt cancellation should be spent transparently and accountably – indeed, this is a major demand of our partner organisations and movements in indebted countries. However, this is not achieved by imposing conditions from outside. Creditors and donors should be doing more to listen to those in indebted and impoverished countries, and to support their policy-making processes and capacity.

More specifically, our demands are:

- There must be an **end to externally-imposed conditions** attached to debt relief. This must apply whether the relief is delivered through HIPC, through the Paris Club, or by any other means. (Jubilee Debt Campaign anyway argues that the HIPC process is flawed and unfair, that the Paris Club is not a legitimate institution in which to discuss poor country debt, and that there is a need for new, open, impartial processes which take into account both debtors' ability to pay given their needs, and the origins of debts.)

- There should be **no 'structural conditions'** – such as privatisations, sectoral restructuring, trade or financial liberalisation – and **no link to IMF macroeconomic targets**.

- Debt cancellation should not be conditional on meeting targets for social sector outcomes or for improved public financial management and governance. These targets **should be established in the country** concerned, separately from debt relief, through their own processes. These should be open processes involving parliamentarians, civil society organisations and the media, and be accessible to all citizens. Donors should support efforts to strengthen these processes.

- There is of course a need for countries to meet their **fiduciary obligations** to use funds released by debt relief and cancellation transparently and accountably for the purposes agreed with their people. The details of how to measure compliance with these obligations should be agreed with governments, parliaments and civil society in the South. Jubilee Debt Campaign argues that this could consist of an agreed standard of budgetary transparency, and of accountability measured by civil society according to their level of genuine involvement in decisions about budgetary priorities.

- Debt relief should **only be withheld** if there is a broad consensus among civil society organisations that these standards of transparency and accountability are not met. In this case, the funds from debt payments should still be spent on projects in the country, for instance through local organisations or multilateral agencies such as UN programmes. If this is not possible, debt payments could be held in trust until such time as transparency and accountability are guaranteed.

- **Donors must themselves act transparently and accountably**: increased transparency and real accountability is the best way to ensure 'good governance'. In the first place, donors and creditors should make all information relating to loans they give or debts they cancel easily available and accessible in the country, not simply posted in technical form on websites. They must also insist on the same transparency of commercial creditors based in their jurisdictions, and act on the 'supply side' of corruption by investigating, prosecuting and blacklisting bribe-givers.

There must be an end to externally-imposed conditions attached to debt relief.

For far too long, the rich world has demanded whatever it wants in exchange for debt cancellation. What it has wanted has been the implementation of flawed policy models, and of technical reforms for which poor country governments are answerable to outsiders rather than to their own people. Policies demanded have often benefited Northern economies. But the impact has been appalling in the South: hurting the poorest people, damaging poor country economies, and undermining democracy and the processes which are essential to ensure that developing countries respond to their own people. It is time to cut the strings attached to debt cancellation.

Glossary

Completion Point	The point at which countries complete the HIPC scheme and get some debts cancelled.
Decision Point	The point at which countries enter the HIPC scheme: conditions to reach completion point are set, and in the meantime they get 'debt relief' in the form of paying reduced debt service.
G8	Group of 8 – club of the world's most powerful countries: Canada, France, Germany, Italy, Japan, Russia, UK, USA.
HIPC	Heavily Indebted Poor Countries – used to refer both to the major international debt relief scheme, and to the countries eligible for it. Established in 1996 and run by the World Bank and IMF.
IMF	International Monetary Fund, established in 1945 as the central institution of the international monetary system. Based in Washington DC, USA.
MDRI	Multilateral Debt Relief Initiative – the debt cancellation initiative that came out of the 2005 G8 meetings. (See www.jubileedebtcampaign.org.uk/mdri for details.) Separate to the UK MDRI. (See page 16 for details.)
Paris Club	An informal group of 19 creditor countries that negotiate as a bloc, behind closed doors, with individual poor countries that approach them over debt crises. Deals only with bilateral debts, ie those being paid direct to the countries and not to multilateral organisations like the World Bank.
PRGF	Poverty Reduction and Growth Facility – an IMF programme with which HIPCs must comply in order to complete the scheme and get debt cancellation.
UNDP	United Nations Development Program.
World Bank	The world's biggest development organisation, providing low-interest loans and grants to developing countries. Established in 1945 and based in Washington DC, USA.

References

For more detailed information and background on the conditions attached to the HIPC process, particularly for countries currently going through HIPC, please see: ***Tightening the chains or cutting the strings? HIPC conditionality in 2006***, by Jubilee Debt Campaign, based on research by A. Wood, for ActionAid UK, Agir Ici, CAFOD, Diakonia, Jubilee Debt Campaign, Oxfam, Plate-forme Dette et Développement, WDM, September 2006.

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

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