DEBT RELIEF MYTHOLOGY

One Week in Iraq's Worth, No Less!

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You know that it is high time to read the fine print and sharpen the pencil when **Treasury Secretary John Snow, Angelina Jolie, Al Franken, Bono, Bob Geldof, the World Bank's Paul Wolfowitz, and the UK's Gordon Brown** all line up on the same side of the field to cheer some change or other in First World policies with respect to the developing world.

This was indeed **a "feel good" week** for First World development buffs, as a group of G-8 Finance Ministers, warming up for next month's giant confab in Gleneagles, Scotland, announced that they had finally agreed on **"$40 billion of debt relief"** for 18 poor, heavily-indebted countries in Latin America and Africa.

In his typically understated fashion**, the UK's Gordon Brown**, Chancellor of the Exchequer and heir-apparent to Tony Blair, called the measure an "historic breakthrough," the "most comprehensive statement that finance ministers have ever made on issues of debt, development, health, and poverty" – even if he did say so himself!

Perhaps so. Of course any amount of debt relief, no matter how picayune, is to be welcomed, especially by the 282 million impoverished inhabitants of these 18 benighted countries, whose median per capita income is $1153 per year ($PPP). Indeed, at least 75 percent of these poor folk somehow manage to survive on less than $2 per day, with an average daily income of just $.98. Fully half of these countries boast life-expectancies at birth of less than 50 years.

At the risk of appearing to be slightly cynical, however, we may wish to pause for a few seconds before popping the champagne bottles, tapping the kegs, and inviting our starving Third World brethren over for a few brewskis, a jol, and a brai to celebrate the "end of poverty" in our time.

As discussed below, in the words of one famous aging rocker, when it comes to debt relief, **"We still haven't found what we're looking for."**

LONG TIME A COMIN'

In the first place, the 18 particular countries selected for this dose of debt relief were not chosen at random, or on the basis of need alone. They are a subset of 69 countries that are regarded by the World Bank and the UN as "heavily" or "severely" indebted.

The select 18 are the ones that, for a variety of serendipitous reasons, just happen to have enrolled in and survived the arduous "HIPC" process that was established by the World Bank/IMF in 1996, supposedly to help poor countries sharply reduce their debt burdens.

Unfortunately, the huge World Bank and IMF bureaucracies have proved to be much better at carefully rationing debt relief than at making sure that such impoverished countries did not get up to their eyeballs in debt in the first place.

Since 1996, the multilaterals' armies of ex-pat *peu tyrants* have conditioned debt relief on all the usual "structural adjustment" strictures – repackaged, without much empirical justification, as "poverty reduction."

(Aside to Jeffrey Sachs: "dollar a day world poverty," as defined by the World Bank, only declined from 1981 to 2001 because of a 500-million + reduction in the number of poor in *non-neoliberal* China – most of which occurred in the early 1980s because of a massive redistribution of land to peasants!)

The 18 favored few include Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Each one has taken significant steps to alleviate debt burdens under the so-called **"Enhanced" Heavily Indebted Poor Country Initiative (HIPC).**

This is a costly process that has forced such countries to jump through elaborate hoops with respect budget deficits, monetary policy, privatization, and other favorite, unproven neoliberal prescriptions. Most of these countries started this process in 2000, and have been waiting for debt relief ever since.

The result was that, as of early 2004, after a decade of HIPC's tender mercies, the "patient 18's" external debt had been reduced by a grand total of **$2.9 billion,** from $83.3 billion to $80.4 billion – about 3 percent. True, some of them did garner some interest rate reductions along the way, but these 18 countries – among the world's poorest – continued to pay more than $3 billion of debt service each year to their creditors.

Since 2004, with HIPC's mandate set to expire at the end of 2006, and debtor countries becoming more and more desperate for relief, the pace has picked up. But before the G-8 Finance Ministers weighed in this month, the patient 18's total external debt still stood at **$61.6 billion**.

This included the **$38.2 billion** of nominal (face value) debt and capitalized interest from the World Bank, the IMF, and the African Development Bank that has just been forgiven, and another **$23.5 billion** of debt from "bilateral" government loans (mainly the infamous ECAs) and some private, government-guaranteed debt.

As of this year, after a decade of HIPC, servicing this debt was still costing these 18 countries almost $2.2 billion a year in debt service.

This may look like a modest sum to many First World residents used to seeing much larger sums spent on agricultural subsidies, submarines, highway programs, and invasions of distant countries.

But it is a very large share of the $2.9 billion that all 18 of these countries spend each year on education, and the $2.4 billion they spend on public health.

MINI-MOUSENUTS

Second, the actual cash value of the debt relief granted by the G-8 is far less than the widely-touted "$40 billion." And the "100 percent debt reduction" proclaimed by the mass media really amounts to just 62 percent.

The total **face value** of the debt canceled by the World Bank ($31 billion), IMF ($4.2 billion), and African Development Bank ($3 billion) adds up to $38.2 billion. But in cash terms, since the average interest rate on the debt is only 3.5 percent, its cancellation amounts to an annual saving of **$1.34 billion a year**.

This saving is certainly nothing to scoff at. But from the standpoint of the developing world as a whole, it compares rather unfavorably with, say, the proposed doubling of First World foreign aid levels to genuinely-poor developing countries. Recently proposed by Tony Blair's Commission for Africa, among others, this would increase current First World aid from roughly $25 billion (counting only the aid to genuinely poor countries) to at least $50 billion a year by 2010.

From this standpoint, this month's G-8 debt cancellation gets us just 6 percent of the way home toward Blair's incremental $25-$30 billion a year of increased aid.

The annual $1.3 billion saving also compares rather unfavorably with the $1.3 billion per week that the Iraq War now costs, according to the latest figures available from the US Congressional Research Services. Apparently it is much more expensive to kill people than it is to keep them alive.

As for the "100 percent debt reduction," the G-8 decision still leaves the 18 "favored few" with $23.5 billion of bilateral government debt and private debt – and about $800 million a year of debt service.

Furthermore, there will be no relief of any kind until the G-8's proposals are ratified at the World Bank/ IMF Annual Meetings in September.

Finally, assuming – optimistically – that these countries would otherwise continue to pay the $1.3 billion per year to the multilateral institutions for the next 20 years without default, and that the multilaterals' lending cost is less than or equal to their cost of funds, the "net present value" of the debt cancellation is **not $40 billion, but at most $16 billion.**

Indeed, from the standpoint of World Bank and African Development Bank bondholders, if the G-8's taxpayers can be persuaded to "take them out" of these "dog countries" and their risky future payments in exchange for, say, $16 billion in cold cash for the multilaterals, that would be a very profitable deal indeed – since the World Bank's cost of funds, for example, is not the 3.5 % average debt service ratio now paid by these countries, but at least 4.7 %. At that discount rate, the

PV of the 18's expected future debt service is worth no more than $14.8 billion.

So if the multilaterals can get First World taxpayers to give them $16 billion to divide, that would leave them with a tidy $1 billion+ gain – compared with having to continue to play bill collector with dirt-poor debtors, and administer the thankless HIPC program.

And I bet you thought it was all about generosity!!!

200,000 LAWYERS

Third, from the standpoint of "ending poverty in our time," this debt cancellation is like 200,000 lawyers at the bottom of the ocean – at best, a good start.

The 41 other "severely or heavily indebted" countries, with 900 million residents, have at least $1.02 trillion in debt outstanding. By HIPC standards, their debt burdens are even heavier than for the semi-fortunate 18 – for example, on average, debt service for the other 41 is 6 percent of national income, compared with just 2 percent for the 18, and 13.3 percent of exports, compared with 11 percent for the 18.

At least 20 of these other heavily-indebted countries that are either waiting to be accepted into the HIPC program (n=11), or are caught in the lengthy "interim period" phase (n=9).

The apparent inconsistencies are glaring. For example, Benin, one of the fortunate 18, only has a $ .8 billion foreign debt, a 1.74% debt service to income ratio, and a $1110 ($PPP) per capita income. Burkina Faso, another one of the 18, has a $.661 billion debt, a 1.25 % debt service to income ratio, and an $1170 ($PPP) per capita income.

Malawi, one of the less favored 41, has a $2 billion debt, a 2.1 percent debt service to national income ratio, and a $590 $PPP income per capital. It has been waiting for debt relief from HIPC since 2000. The DR Congo – formerly the notorious dictator Mobutu's personal fiefdom, Zaire – with 53 million people, a $660 $PPP per capita real income, a $7.6 billion debt, a 2.7% debt/GNI ratio, and a life expectancy at birth of 45 years, has also been hanging fire since 2003, waiting for some relief. It fails to qualify for a mixture of technical and political reasons – including the fact that it remains a war zone. (Nota bene: ***Iraq*** remains a war zone, but the international community has worked overtime to give **its 25 million people** tens of billions in debt relief.)

There are at least a few dew drops of social justice in the G-8's discriminations, however. **Bolivia**, lately in the news because it is on the verge of descending into armed conflict between the indigenous majority and its blancos/ "gente decente" elite, undoubtedly deserves special consideration, after a decade of neoliberal policies that basically succeeded in increasing poverty, inequality, and social tensions to the breaking point – as the IMF itself has admitted in a recent report.

Nicaragua, another long-suffering satellite of American foreign policy that had the temerity to toss out a US-backed dictator – sort of a Mobutu with maracas – and ended up the world's most heavily-indebted country in the 1990s, relative to its size, has also qualified for $265 million in additional debt relief. At the moment, like Bolivia, the country is in a state of emergency – another good example of neoliberalism's pronounced tendency to overplay its hand.

SUMMARY

Elsewhere, we've expressed grave doubts about the **"more sand, same rat-holes"** approach to increasing foreign aid, wiping out debt, and "ending poverty."

Fighting poverty, after all, is not just about malaria nets and drinking water; ultimately it is about deep-rooted structural change, political mobilization, the redistribution of power, land, education, and technology, entrepreneurship, and the overthrow of established orders – concepts that World Bank bureaucrats, let alone "development economists," may never understand.

At this point, however, it remains true that the poor in many debt-ridden countries are in dire need of short-term relief.

In that spirit, it would be great to see the G-8, the World Bank, the IMF, and other so-called "development banks" work even harder to finally deliver on their long-standing commitments to debt reduction for *quite a few more* of the poorest of the poor.

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