

A proposal for the Design of

**HIPC DEBT RELIEF**

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## **HIPC DEBT RELIEF**

*Debt cannot be treated as a commercial issue, but a human question – debt is the enslavement of citizens, before they are born, during their lifetimes, and even extends after their death.*

*Bishop Sengulane*

**Issue:** To reassess the current approach to debt relief.

The debt relief issue is a Gordian Knot. It is self-evident that no one profits from wholesale impoverishment of countries with high indebtedness, depriving generations of adequate basic educational and health services. The political downside of debt relief is equally self-evident – significant numbers of taxpayers in sensitive domestic constituencies are forced to suffer bankruptcy without debt relief. Moral hazard is a legitimate concern. The consequences of debt relief for those on the cusp of high indebtedness should not be to encourage irresponsible decisions. The issue is complicated by the fact that some of the HIPC's have or have had undemocratic wastrel governments who, most would agree, don't 'deserve' debt relief. The knot is made more complex by the sourcing question – "where should the debt relief resources come from?" The issue devolves to the key questions of conditionality – What are the conditions? Who should impose them?

At the end of 2000, the HIPC2 initiative brought the total figure of countries that have reached the ‘Decision Point’ (that is to the point at which debt relief is committed by participating creditors), to 22 out of a possible 41. There are some countries, for example, Uganda, Mozambique and Guyana, which have been successful under the initiative; debt relief had been deep enough to make a real impact. However, even after HIPC relief, some countries are still paying over one and a half times more in debt service than they are on health care. In countries such as Uganda, where the population suffers from one of the highest levels of HIV infection in the world, this is simply not tenable. It is clear that the HIPC2 initiative is in need of reform.

### *Poverty Reduction Strategy Papers*

Under the HIPC initiative, countries were expected to gain World Bank and IMF approval of their “Poverty Reduction Strategy Paper” (PRSP) before eligibility was confirmed. Many countries found this challenging, and experienced tension resulting from the necessity for early debt relief and the burden of developing a good plan fit for approval. Under the new HIPC2, countries may begin to receive debt relief, provided they submit an Interim PRSP, which confirms the country’s commitment to poverty reduction, and outlines a general plan of action. Unfortunately, even the Interim-PRSP’s are proving to be technical and time-consuming. What was intended as a light document, seems to have fallen into a slow bureaucratic process.

“Debt relief, though an important element of a broad strategy to tackle poverty, is not a panacea. It must proceed hand-in-hand with measures to address underlying weaknesses, most notably with those that improve governance and reduce military and other non-productive expenditures it is essential that we focus on the quality of conditionality rather than on the quantity. Sao Tome and Principe, a tiny island nation of 140,000 people, is required to carry out some 160 policy actions to obtain debt relief. This is absurd.”<sup>iv</sup>

### *Moral Hazard*

The HIPC process was subject to conditionality in order to prevent ‘moral hazard’. “Excessive” cancellation of debt would lead to moral hazard, a high level of irresponsibility on the part of the borrowers who feel little obligation to repay their loans. Unless debt relief conditions are onerous, debtor countries may feel free to default; others would not have the incentive to borrow responsibly in the future.

### *Debt Review Body*

Jubilee2000 recommends a review body that would be overseen by the UN or another independent organization. The organization could appoint an independent arbitrator to monitor the work for the DRB and appoint equal members from each side, including reps from civil society. The documents would be made public and decisions would be binding. The body would monitor funds and ensure that monies are being spent on poverty reduction priorities. Kofi Annan, UN Secretary General writes, “I would go a step further and propose that, in the future, we consider an entirely new approach to handling the debt problem. The main components of such an approach could

include...establishing a debt arbitration process to balance the interests of creditors and sovereign debtors and introduce greater discipline into their relations. This approach is impractical, given the widespread opposition in influential quarters to subordinating any function of the IMF and World Bank to a United Nations creature.

#### *Countries Affected by Conflict*

Under the HIPC2 initiative, all 9 conflict-affected countries are excluded from accessing debt relief, but urgently require resources for recovery and development. For example, Chad, Guinea Bissau and Rwanda, are facing severe governance issues or undergoing civil conflict, which is complicating efforts to offer assistance.

#### *Financing and Private Investment*

*programmes etc.* This approach presumes the availability of significant funds available for debt repayment.

**Mandate of Proposed Agency:**

The HIPC Debt Relief Agency would explore viable and practical ways to accelerate the effectiveness and progress of the IMF's HIPC initiative. To insist that every dollar is paid back by donor countries is unrealistic; to expect donor countries to relieve 100% of debt

