Debt relief: A yawning gap between rhetoric and reality

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The headlines proclaimed billions of dollars of debt relief for the world's poorest countries as a result of the decisions taken by the major industrial countries at their annual G7 summit, held in Cologne over the weekend.

But as the saying goes, the devil is in the detail. And closer examination of the debt write-off plan reveals a yawning gap between rhetoric and reality.

The G7 has proposed to reduce the debt of the poorest nations by $27 billion. But critics point out that much of the debt written off was not being serviced in any case. Even with the latest relief, poor countries will still be paying more interest and other payments to the banks and global financial institutions than they spend on education and health.

Experience shows that extreme caution should be exercised when considering official pronouncements on debt relief plans.

Three years ago the so-called Highly Indebted Poor Countries (HIPC) debt reduction initiative was greeted with similar headlines. World Bank president James Wolfensohn hailed it as a “breakthrough”. US Treasury Secretary Robert Rubin said debt would be reduced to “manageable levels” and poor countries would be placed “on a sound footing for future development and growth”. Even the aid agency Oxfam called it a “real opportunity to bring down the curtain on the debt crisis”.

But the HIPC plan left the poorest nations deeper in debt and more tightly entrapped in the coils of the international financial system. This year four million children under the age of five in the 41 nations classified as HIPCs will die as a result of preventable diseases, mainly due to lack of clean water and sanitation. Around 50 million children of primary school age are not in school, two-thirds of them girls.

After carrying out stringent IMF restructuring measures, based on cutting government spending and opening up its economy to the operations of the “free market,” Mozambique, one of the poorest nations in the world, qualified for debt relief under the HIPC program. It cut just $10 million from its debt burden and will still spend $80 million a year on debt—more than twice the national budget for primary education and four times the budget for primary health.

The HIPC countries are concentrated in Sub-Saharan Africa, where the external debt has risen from $3 billion in 1962 to $250 billion. And the rise in debt has been accompanied by a series of conferences, initiatives and plans, all accompanied by claims that, this time, real measures had been taken to resolve the problem.

The Cologne summit is no exception. US President Bill Clinton hailed the latest agreement as “an historic step to help the world's poorest nations achieve sustained growth and independence”.

British Prime Minister Tony Blair, never one to be outdone in humanitarian rhetoric, said the summit “will probably mark the biggest step forward in debt relief and help to the poorest countries that we have seen in the international community for many years”.

Critics of the proposal point out that poor countries will be faced with imposing even harsher measures under the International Monetary Fund's “structural adjustment program” in order to qualify for debt relief. Such measures include ending government subsidies, increased privatisation, deregulation of the economy and currency devaluations.

According to Jessica Woodroffe of the World Development Movement, a British-based anti-poverty organisation: “They haven't budged an inch on freeing debt relief from the IMF's policies, which are pushing the poor deeper into poverty."

As the details of the plan were being released last week, Oxfam pointed out that even after the proposed reforms, HIPC states would still be spending more than one-fifth of their revenues on debt servicing.

Another aspect of the plan to come under fire is the proposal for the IMF to sell part of its gold stocks in order to finance debt relief. The World Gold Council, a London-based organisation of gold mining companies, claimed that the recent fall in the price of gold as a result of plans by the IMF, the UK and Switzerland to sell off stock had already cost HIPC countries more than $150 million in export earnings.

"The future growth of these nations is being undermined by precisely those who wish to proffer a helping hand—the IMF and governments of some well developed countries," it said.