Britain's "debt relief" and what it means for the world's poor

Trevor Johnstone
5 January 2000

British Chancellor of the Exchequer Gordon Brown announced prior to the Christmas holiday that he would be writing off the debts of the 41 most indebted countries. On the surface, this appeared to be a commitment to squeeze £300 million less out of these countries than was expected—surely to be praised as an act of kindness.

However, Treasury officials have confirmed that the initiative will be spread over 20 to 23 years, and will have tough conditions attached to ensure that recipients have introduced economic agendas set by the IMF and World Bank. Countries such as Nigeria, Haiti and Peru will be unaffected (since they are not amongst the 41 most indebted countries) and will have to pay back their loans with interest as before.

Brown said: “The IMF and World Bank have drawn up a poverty reduction strategy, which all chosen countries must sign. This has timetables and dates, which must be stuck to. The countries have promised that for our debt relief they will put their money into health, education and poverty relief. We don't want the money to be spent on arms or corruption.”

What Brown means by “poverty relief” is described quite accurately in the book *The Globalisation of Poverty* by Michael Chossudovsky: “Since the late 1980s, ‘poverty alleviation' has become a ‘conditionality' of World Bank loan agreements... [it] is predicated on slashing social-sector budgets and redirecting expenditure on a selective and token basis ‘in favour of the poor'” (pp. 66-67). This means the dismantling of established social welfare programs, and their replacement by a meagre “social safety net”, usually drawing on the activities of non-governmental organisations (NGOs) funded by charities and international “aid programs”. The IMF and World Bank have already signalled that Côte d'Ivoire and Guyana will not meet the necessary conditions for “Heavily Indebted Poor Countries” (HIPC) debt relief, unless government policies are changed in this direction.

The money being reimbursed under Brown's initiative is owed to the Export Credit Guarantee Department (ECGD), which assists British companies to win overseas contracts. It guarantees to refund money to any UK bank that lends funds to a government or company for contracts with British firms, in cases of default. This is initially funded out of UK tax revenue, but the amount left owing to the ECGD has to be paid off with interest by the debtor country. Brown said the Treasury would provide the money to repay all losses to the ECGD. Total debt to the ECGD is £1.9 billion, of which the government had already pledged to waive £1.6 billion. The other £300 million is now to be paid off as well.

The payments will be staggered to meet the repayment schedules agreed by the debtor nations with the ECGD. Next year's cost will be about £10 million, met from Treasury reserves. These annual costs are a drop in the ocean compared to the size of the British economy—and they are to be spread among 41 countries. Much of the loans had already been effectively written off as bad debts anyway, since the countries had proven unable even to meet the interest payments, let alone pay off the original debt.

The total Third World debt is estimated at about £300 billion. Brown first expressed an interest in writing off all bilateral debts owed by Third World countries in October, after a similar move by President Clinton. But it is only now, after talks with the World Bank, the International Monetary Fund and other major donor countries, that the Chancellor has become more specific. The total amount of debt to be written off is

£300 million (the figure quoted by the government of £640 million included lost interest). This represents around 0.1 percent of the total Third World debt. The 41 HIPC countries owe Britain just £2 billion out of their total debt of £132 billion.

A major factor in Brown's calculations is the extent to which this move will put pressure on Britain's rivals—Japan, Germany, France and others—to write off their far larger loans. He made clear that he expected other countries, which had been hesitant to write off their bad debts, to follow suit. "This is a pledge with a purpose, because we want other countries to follow our lead," he said.

British charities have already fallen into line with this. Justin Forsyth, Oxfam policy director, said the announcement would raise the pressure on other industrialised countries. "The challenge now is to convince the debt doubters, like Germany, France and Japan, to do the same."

The “Jubilee 2000 Coalition” (which has been campaigning for just this kind of debt relief) was even more specific in its statement on Brown's measures:

“So the real significance of Brown's promise is that it puts pressure on the other G7 creditors to also cancel 100 percent of their bilateral debts. If all the G7 creditors were to do this for HIPC countries, about 40 percent of the total debts owed would be written off. Now that Britain has joined the US and Canada, that leaves Germany, Italy, France and Japan to follow. These remaining countries are owed the bulk of the debt so it is crucially important that the domino effect, given a boost by Brown, continues.”

France and Japan are owed by far the most money by the 41 HIPC countries (France, $11.7 billion; Japan, $10.5 billion), with Britain sharing fifth place with Italy ($2.7 billion each). The main reason why only 40 percent of the HIPC's debts would be affected, were all the other G7 countries to follow suit, is that much of the debt is not between governments, but is owed to private corporations. None of the measures proposed will affect this portion of the debt.

Despite the pompous rhetoric at the G7 summit last autumn, where it was announced that £60 billion owed by 41 HIPC countries would be written off, very little has changed in practice. Even Brown's supporters in “Jubilee 2000” have to point out the dismal track record for delivering on the much-vaunted promises of debt relief: “The Chancellor's commitment is dependent on countries coming through the HIPC initiative. This initiative was started in 1996, but since then only 4 countries, out of the 41 who qualify, have seen actual reductions in their debt repayments. The HIPC initiative continues to be subject to stalling by certain creditors and arguments about funding.”

Huw Evans, the UK's executive director at the IMF and World Bank between 1994 and 1997, said that the first debt relief packages were designed “because of the dangers to many of the world's largest banks, and the banking system. Exposure to the debtors by many banks, especially in the United States, but also to a lesser extent in the UK and the rest of Europe, was several times total bank capital. The debt strategy in the 1980s bought time for the banks to rebuild their capital.”

The first countries to be covered by Brown's new measures, from January 2000, are Uganda, Bolivia, Mozambique and Mauritania. Another five to seven countries, including Tanzania, will be brought in soon after, and another twenty-five HIPC members by the end of next year. Government spokesmen for some of the indebted nations said the measures would have a significant impact on their own budgets and spending programmes, reflecting the way in which these governments profit from imposing the IMF agendas on their peoples.