7 Limited Achievements of the Debt Relief Process[1]

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7.1 Introduction

The question of debt burden and debt relief is still one of the important issues of international relations despite the fact that it is probably less prominent now than it was in the 1980s. Although "new" topics such as terrorism, proliferation of weapons of mass destruction or environmental agenda have become foremost and may seem to dominate current discussions, the problem of debt is still far from being solved because it continues to have impact on a given group of states. It influences their internal situation: the ability to service external debts, long-lasting deficits of current accounts, lack of money to finance development projects or problems caused by the requirements of multilateral institutions such as the World Bank[2] or the International Monetary Fund; as well as their position in the world: their status in international relations, their bargaining power and participation in various organizations or in negotiations about trade and economic connections with other countries.

The aim of this chapter is therefore to analyse progress and present-day situation of debt relief. It may be argued that developing countries have not been very successful in promoting debt forgiveness or a substantial reduction of debt stock, and arguments to prove this statement will be presented on the following pages. The reasons for this belief are that a lot of states, especially in the region of sub-Saharan Africa, are still struggling with scarce resources to service their debts, and that there has been a number of different proposal and initiatives to improve the situation the helpfulness of which is disputed by a lot of the authors. The industrialized countries, mainly the G-8 states, have also made a lot of promises which were kept only to a certain extent. Moreover, given the amount of money owed to the developed world, multilateral institutions and private banks, states of the global South are limited in their campaigning efforts by bargaining power of the creditors who can influence the situation by conditions of and approaches to debt relief, rescheduling and forgiveness.

In short, despite rhetoric of the developed world and statistics of the international financial institutions, debt relief so far has been granted only to a limited number of countries in need. This means only a partial success if all the promises made till present are taken into account. For a lot of the countries in the developing world there is still a long way to go to achieve the desirable result of their efforts which is debt forgiveness or at least by a substantial reduction of debt still to be paid.

As argued by Wiarda (1990:411) the problem of indebtedness of developing countries may be viewed from a number of different angles: there may be moral perspectives as well as humanistic, financial or economic, the last approach being used most widely according to the author. Given the limited length of this text, it is not possible to take all these viewpoints into consideration, and the aim will therefore be to show that the problem of debt relief and its partial success may be also seen as caused by the given state of the international system: by relations between the relatively wealthy developed world and the developing one that lacks resources, which has an impact on its bargaining power. Yet another issue is also connected

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[1] The text of this chapter is based on a bachelor dissertation defended at the Department of International Relations and European Studies, Faculty of Social Studies, Masaryk University in January 2008.
[2] World Bank is a general term used for the International Bank for Reconstruction and Development group.

with the debt crisis, and that is a strong position of *the Bretton-Woods institutions* (BWIs), *the World Bank* (WB) and *the International Monetary Fund* (IMF), in process of finding adequate solutions to it.
There are a lot of criteria available for assessing success of debt relief such as the number of countries debt of which has been forgiven or reduced, long-term trends of the debt situation in selected countries (e.g. debt proportion to GDP, debt per capita or debt service to exports ratio[3]), speed of improving/worsening the debt servicing problem or the number of negotiations about rescheduling. Some quantitative analysis of debt statistics is inevitable to describe the situation of the debt crisis properly, and there is therefore need to present some data relevant to this issue. On the other hand, as this is not an economic analysis the space provided for numbers will be limited. The main reason is possibly problematic nature of the debt statistics issued by the World Bank or the International Monetary Fund. Given the amount of resources needed to do the research, these two organisations have nearly monopoly in providing data. This poses a threat discussed e.g. by Wade (2003:139), Raffer and Singer (2001:181-2) or Simon (1995:24) that the numbers are not unbiased as the institutions need to prove their success and there may be therefore a tendency to "improve" the published information. To illustrate the limited success of debt relief, more time will be thus devoted to analysing the problematic achievements of its main initiatives.

For better orientation of the reader, the chapter is divided into six parts. The introduction is followed by a description of the origins of the debt crisis and its development so far where roles of the important actors and the main proposals of managing the situation will be discussed. The third part is devoted to analysis of achievements of the three most important initiatives connected with debt relief: the structural adjustment programmes (SAPs) of the 1980s, the Heavily Indebted Poor Countries Initiatives (HIPCI) started in the 1990s and the Multilateral Debt Relief Initiative (MDRI) announced after the summit of the G-8 states in Gleneagles in 2005. The aim of the fourth part is then to present the reasons of why debt relief has been limited so far. The role of the Breton-Woods institutions and states of both the developed and the developing world will be addressed. The conclusion will summarize the main arguments of why the debt problems cannot be considered as being solved for good.

7.2 The Debt Crisis: its Origins and Development from the 1980s till Present

The debt crisis broke out in August 1982 when Mexico, one of the largest debtors, announced that it was no longer able to service its debt. Although this may have taken the international community by surprise, during the 1970s there were attempts such as by Garg (1978) or Pearson Report (see Raffer and Singer 2001:158) that tried to point out to the coming difficulties. But as Mulhearn (1996:169) argues debt problems started to attract widespread attention only when the situation got to the stage of threatening stability of banks in the developed world.

Before analysing development of the debt crisis and relief between the 1980s and present, the origins of the problem need to be described.

7.2.1 The Reasons of the Debt Crisis

[3] A proportion of export earnings which is needed for amortization of the debt and repayments of interest rates.

Developing countries experienced substantial economic growth in the 1960s (average of 6.6% between 1967 – 1973, see Todaro 1994:459) which continued to the first *oil shock*. In 1973, after the Yom Kippur War, *the OPEC countries* decided to increase oil prices. They rose four times (Pilbeam 1998:290), which started to cause problems in both the developed and the developing world as oil was needed everywhere. The import prices had risen and influenced the balance of payments of a lot of the countries. While non-OPEC states experienced deficits of their current accounts, the oil-exporting countries earned large sums of money which they were not able to spend, and they thus deposited it largely in the European and the US banks.

The period of relatively fast growth in the 1960s supported the traditional approach to development as being equal with rising economic standards, and seemed to prove the theory of Walt Whitman Rostow that all countries have potential to develop along the same trajectory, the only obstacle being delay due to the *lack of resources* to promote rise of economic capacities of the "backward" states. Developing countries were thus eager to maintain the rates of growth and borrowed heavily to be able to afford oil imports and to finish the development and industrialization projects initiated in the previous decades. As large sums of so called petrodollars that could not be spent in the industrialized countries were available, commercial banks were prepared to invest in the developing world.

The loans, even though very large, did not seem risky at first because of the relative strength of primary commodity prices in the 1970s (Mulhearn 1996:170). In addition, *surplus of money* on the international markets meant higher levels of inflation; interest rates were thus relatively low, which made borrowing even more attractive. Commercial lending boomed as countries were reluctant to borrow from institutions such as the IMF or the WB due to the required conditions. A lot of the new loans were agreed on terms of shorter maturities and variable interest rates (Todaro 1994:463) which proved to be disadvantageous at the beginning of the next decade. Since money was available, there was no pressure on proper development planning. A large number of projects were thus ill-prepared and did not generate expected return of capital.

Debt service payments tripled between 1975 and 1979 (Todaro 1994:463) but debtor countries managed to maintain the growth which made debt servicing possible. After the second oil shock in 1979, oil prices increased from $13 per barrel in mid-1978 to $32 in mid-1980 (Pilbeam 1998:297). The governments of the industrialized countries imposed *strict monetary policies* in order to stabilize the economy and to lower inflation levels. Interest rates had risen dramatically causing economic slowdown and a substantial increase of debt burden of a lot of the countries. Global recession at the beginning of the 1980s initiated a new wave of protectionism in the developed world which meant deteriorating *terms of trade*[4] for developing countries. This coincided with falling primary commodities prices, a trend which continues till today. If compared with prices in 1980, the export earnings from cotton fell by 47%, in case of coffee by 64%, from cocoa and sugar by 71%, 77% respectively (Commission for Africa 2005:109).

All these developments meant increasing deficits of current accounts in countries of the global South which started to lack foreign currency to repay the loans. Moreover, the US tight monetary policies whereas relatively relaxed fiscal policies led to appreciation of the US dollar between 1980 and 1985 (Pilbeam 1998:298) which further increased debt burden because exchange rates worsened and more money was needed to service the dollar-

[4] A proportion between money earned from exports and money spent on imports.

denominated debts. This resulted in new borrowing under at that time more and more disadvantageous conditions in order to meet the obligations. The debt crisis started in 1982 when Mexico announced that it was no longer able to pay its debts.

In reaction, the developed countries became very concerned about stability of the international financial system as debt proved to be threatening a lot of commercial banks which could start to collapse in case of default of a major debtor. Contrary to this, Pilbeam sees the possibility of such a scenario as quite unlikely, and he argues that usually everything is done to avoid default because of the possible consequences of "exclusion from future borrowing, reduced earnings from trade and seizure of overseas assets" (1998:414-415).

The debt crisis hit hard mainly Latin America and sub-Saharan Africa, and these regions are therefore focus of this chapter. Yet this does not mean that other parts of the world were not influenced. For instance, Alami claims (2003) that situation of the Arabic countries is usually not discussed even though some of them such as Syria or Jordan are experiencing debt problems. Countries in Asia are usually connected more with the financial crisis of 1997 which also worsened the debt situation in a lot of these states. Nevertheless, as Latin America and sub-Saharan Africa are the most "famous" for their debts, it seems logical to concentrate on these two parts of the developing world.

Before proceeding to developments of the debt situation in the 1980s and the 1990s, it is necessary to explain the differences between the *debt structures* in both regions as they are far from having the same problems. Latin American countries entered the 1980s as much largely indebted than the sub-Saharan states. At the end of the decade Brazil owed about $120 billion, Mexico $100, Argentina $70 and Venezuela $50 billion (Wiarda 1990:411). On the other hand, Simon calls the African crisis as a "silent one" because indebtedness was lower but was "rising quietly but dramatically" (1995:18). The creditors were also different: the largest amount of money in Latin America was owed to commercial banks while in sub-Saharan Africa to official creditors such as states and multilateral institutions.

7.2.2 Development in the 1980s and the 1990s

At first, the debt crisis was seen only as a temporary shortage of *liquidity problem* not as something which was supposed to cause difficulties in the international system till the new millennium. The main concern was to ensure that there would be no collapse of any important banks due to default of a major debtor. Roles of different actors in the crisis are worth analysing in more detail at the beginning of this part (according to Pilbeam 1998:416-419, for more in depth discussion see Herman 2007).

The commercial banks supported the explanation of the problem as a liquidity not a solvency one[5]. Rescheduling with additional interest charged for it was emphasised as a main solution. Lending continued so that any incentives to default would be avoided. Debt forgiveness was opposed because it would be too costly and if relief was granted to only a few debtors, other states would ask for it as well and pointed to unfair behaviour of banks.

[5] A *liquidity problem* means that the government does not have enough foreign currency to meet its obligations but is able to repay them in the long run, a solution may be just rescheduling. On the other hand, if a *solvency problem* is the case, the government is not and probably will not be able to repay debts even if rescheduled, the only solution is thus debt forgiveness

The main concern of the industrialized states was to prevent collapse of their banking system. However, the governments were not willing to use public funds to help because it could have been seen as bailing-out commercial banks with tax-payers' money. The preferred way of dealing with the crisis was therefore to increase money available for the WB and the IMF which could provide developing countries with loans and promote reforms at the same time. On the other hand, debtor countries saw the problem as caused by external factors rather than by unwise domestic policies, and argued for debt forgiveness.

Role of the Breton-Woods institutions (BWIs) in the developing world was strengthened although their attitude to the crisis was different. The World Bank could provide more funding for different plans and programmes to deal with the situation. The International Monetary Fund was not entitled to do this as it could lend money only to support reform policies not particular projects. Pilbeam (1998:419) argues that both of the institutions were restricted in their actions by the amount of possible capital to be lent because the IMF did not have enough resources and the WB had to keep its AAA rating.

Due to the definition of the debt crisis as being a liquidity problem, providing more loans and negotiating rescheduling agreements were seen as appropriate solutions. In 1983 and 1984, $126.4 billon of private debts of 25 developing countries had to be rescheduled, $118.1 billions owed by the Latin American governments (Parkins 1996:60). In 1985 the *Programme for Sustained Growth* was announced by the US Secretary of Treasury James Baker. It emphasised growing out of debt by structural reforms introduced by the BWIs which were supposed to generate capital for repayments. Increased lending of the IMF and commercial banks was also promised. The plan was focused only on the countries which owed money to the US banks and it thus did not provide any overall solution. In addition, private banks refused to continue investing money in the countries where return of capital was not very likely. Todaro (1994:451) argues that capital flow changed from $35.9 billion going to countries of the global South in 1981 to $22.5 billion transferred to the North in 1986.

To support management of the debt crisis in developing countries the IMF created the *Structural Adjustment Facility* in 1986, renamed to the *Enhanced Structural Adjustment Facility* (ESAF) a year later. To borrow money from these funds debtor countries were required to pursue a number of reforms which are known as the *structural adjustment programmes* (SAPs) and which were designed to improve the economic situation. The usual requirements of the SAPs were: cuts in government expenditure on health, education, employment or food subsidizes, currency devaluation, export promotion, trade liberalization, privatisation and deregulation. These measures met with strong criticism in developing countries as well as in academic circles, and they became know as „*the Washington Consensus*“[6]. The achievements of these programmes are questionable because they were followed by declining living standards, rising unemployment and rising inequalities within the societies so the 1980s are frequently referred to as a "lost decade of development". A more detailed analysis of positive and negative aspects of the SAPs as well as other major debt relief initiatives will follow later.

Although debt management in the 1980s may not be regarded as successful, the collapse of the international financial system was prevented. The beginning of the 1990s was marked by rising optimism and hopes for a new development decade. Latin America started to attract investors again which was interpreted as a signal of improvement, and there were opinions

[6] A term first used by an economist John Williamson in 1989 to describe the core conditions of the SAPs.

that by the mid-90s the crisis would be over. Also Africa seemed to have overcome the worst according to the World Bank and the UNDP and their famous statement of 1989 that "Recovery has begun" (Raffer and Singer 2001:174). But it was not the case. Although economic indicators improved (Cabello, Ortiz 1995:240), the social welfare continued to decline (Potter 2000:16). Furthermore, Raffer and Singer argue that optimism was caused mainly by toleration of non-payments but the current account deficits were still increasing e.g. in Mexico the deficit tripled between 1990 and 1992 (2001:178). There was also a problem with investments as they were volatile and could be withdrawn very quickly, which happened in 1994 (Raffer, Singer 2001:14). The Mexico financial crisis showed that the predicted end of the debt crisis was too optimistic. As this state was one of the champions and model debtors of the BWIs that implemented the required reforms, adequacy of the SAPs started to be questioned even more.

However, in the mid-1990s attention started to shift from Latin American countries which seemed to be more or less stabilised to sub-Saharan Africa where the situation was not improving. In 1996 total external debt of Africa was $320 billion which was equal to the region's GDP per year, making it the most indebted part of the world as Latin American proportion of debt to GDP was "only" 60% (Ayittey 1999). In 1996, the IMF and the WB launched a joint programme called the *Heavily Indebted Poor Countries Initiative* (HIPCI). The main aims were to reduce the external debt of the world's poorest states to sustainable levels and to ensure that the countries had enough resources to make repayments and to finance economic growth at the same time. In order to achieve debt relief, a country had to implement reforms and go though stages which were monitored by the BWIs reaching first *the decision point* and then *the completion point*. At that moment debt relief was granted. To support the countries the WB created *the HIPC Trust Fund* with basic capital of $500 million to pre-pay debts, to help and cover debt service if a country could not meet it and to purchase debts and then cancel them. The IMF established *the ESAF Trust Fund* to provide the poor countries with grants which were, as argued by Raffer and Singer (2001:185), then used to repay the IMF but it allowed the institution to maintain reputation that it did not reduce debts.

The Initiative was enhanced in 1999 because it was criticised by developing countries and NGOs as too slow and ineffective. Reduction of poverty became the main target which went in line with *the Millennium Development Goals* (MDGs) discussed by the United Nations and agreed on a year later. The IMF's Enhanced Structural Adjustment Facility (ESAF) introduced in 1987 was changed into the *Poverty Reduction and Growth Facility*. The requirements to qualify for the HIPCI II were lowered and debt relief is now provided from the decision point, not the completion one. Countries need to create a *Poverty Reduction Strategy Paper* (PRSP) where the freed resources are used effectively to alleviate poverty. The other two key elements emphasised are country-ownership and civil society participation. Countries can achieve the decision point after three years of economic stability and an interim PRSP approved by the BWIs. If stability is maintained and the final PRSP gains approval of the institutions, a country reaches the completion point when a proportion of debt is cancelled to a level which is seen as sustainable for the given country. In March 2008 thirty-three countries were receiving debt relief under HIPCI II; twenty-three of them reached the completion point and ten were benefiting from some debt reductions as they were in the interim period between the decision and completion points (IMF 2008).

7.2.3 Situation in the new millennium

The total external debt of all developing countries at the end of 2005 was $2,800 billion and debt service payments over the year reached $511 billion (Jubilee 2000: The Basics about Debt). For sub-Saharan Africa, which is the most problematic region now, the external debt increased by 175% from $84.1 billion in 1980 to $231.4 billion in 2003 (African Development Report 2006:13) while its share of world exports between 1980 and 2001 fell from 4.6% to 1.9% (Randriamaro 2003:121).

The issue of development and debt relief became less prominent after the attacks on the World Trade Centre in September 2001, and attention of the international community shifted more to the *war on terror* and later also to *environmental agenda*. Despite this, a new debt relief initiative which was named the *Multilateral Debt Relief Initiative* (MDRI) was agreed on in 2005 at the G-8 summit in Scottish Gleneagles. This is again seen as a step further in debt management because it emphasises debt forgiveness not just relief and focuses on multilateral creditors. Most of the private banks' loans have already been repaid with money from the BWIs, and bilateral relief is granted by the Paris Club[7] so the multilateral institutions were the last ones to be tackled. The qualification criteria for the MDRI are the same as for the HIPCI II, and after reaching the completion point debts of the countries which are owed to *the IMF*, *the International Development Association* (IDA)[8] and *the African Development Bank* (AfDB) are cancelled. On 6 January 2006, the IMF was the first multilateral institution to cancel the debts owed to it by 19 of the world's poorest countries.

The question whether the measures and programmes described here substantially reduced debt burden of developing countries is a not an easy one to answer and consensus seems to be difficult to reach. The following part of the text thus focuses on the main initiatives: the structural adjustment programmes, the Heavily Indebted Poor Countries Initiatives and the Multilateral Debt Relief Initiative, and tries to evaluate their impact on the debt crisis and its management.

7.3 Has the Situation Improved due to the Main Debt Relief Initiatives?

When analysing the debt relief initiatives and their impact on the debt crisis, there may be a lot of different answers to the question if they have helped or not. First, it is important to distinguish between short-term and long-term gains, this means that e.g. at the beginning there were problems connected with certain programmes or reforms but they could have been beneficial in the long run. Second, the issue whether the situation has improved or not may be viewed differently by different actors. For creditor countries the debt crisis may be over because it no longer threatens their banking systems; for Latin American debtors it may be partially over because their markets are growing at the moment but for the countries in sub-Saharan Africa the situation has improved just slightly or not at all because they continue to have problems with servicing their debts.

Answer to the question whether developing countries have been successful or have failed in their efforts to reach their goals may also depend on what the original aim was. Was it 100% debt forgiveness for all indebted countries, debt relief for all countries or just partial debt relief for only the most indebted countries? In case that the target was the first one, then it can be said that developing countries have failed in the task. Yet if the objective was to gain debt relief for as many countries as possible, there may have been progress towards achieving it.

[7] It is a group of major creditors set up in 1956 when Argentina's debt had to be restructured for the first time.
[8] An agency which belongs to the World Bank group and provides concessional lending for the low-income countries i.e. loans with long maturities (10 years) and low fixed interest rates of 0.5% per year.

This part therefore tries to answer questions if the main debt relief initiatives were/are effective, to whom they helped or did not help, and how they changed/may change the situation of the indebted countries.

7.3.1 The Structural Adjustment Programmes

The structural adjustment programmes were connected with the first plans designed to deal with the debt crisis in the 1980s, and they are probably the most controversial and criticised ones in the history of debt management. But before looking at problems connected with the SAPs, it is necessary to consider the historical background of their creation as this may help to see these programmes in wider context of the international relations and atmosphere of that time. The main objectives of the SAPs were cuts in government spending, currency devaluation and policies supporting export, trade liberalization and privatisation. In the 1980s these steps were viewed as promoting economic growth and leading to development because the import substitution measures had failed in the 1970s (Cabello, Ortiz 1995:238). Pro-export strategies, which contributed to the “Asian miracle”, were thus to be pursued because they seemed to be the only way forward. The end of the 1980s was also a period when the socialist model of economy was proved unsuccessful, and capitalism was viewed to be the only system ensuring development and growth (Simon 1995:12). It is therefore not possible to blame the Breton-Woods institutions for neo-imperialism and for defining strategies which were a priori designed to harm developing countries. Nevertheless, the SAPs probably made the situation worse for debtor states, delayed debt relief and caused problems which need to be mentioned here.

First, export promotion meant that a lot of countries started to introduce very similar products to the world market as agriculture and natural resources were the only areas where they were able to compete with the developed states. This behaviour led to overproduction, market saturation and oversupply. Prices started to fall and export earnings shrank (Raffer, Singer 2001:12). Developing countries were competing with each other on the market; they were exporting more but earning less. Slower growth in the North was also connected with a wave of protectionism. Any increase in tariffs was not allowed by the GATT agreements so the developed countries moved to *non-tariff trade barriers* such as quotas, anti-dumping measures or negotiating “voluntary export restraints”. Parkins (1996:64) argues that between 1980 and 1991 the USA only imposed 125 export restraints on developing countries. According to the SAPs, export was to be supported by devaluation because it made products cheaper and more competitive. On the other hand, it also meant that debts increased due to the worse exchange rates between local currencies and the US dollar in which they were serviced (Eurodad 2006b:6).
The reason behind this model that by increasing exports more foreign currency will be gained to service debts seems logical and not flawed. Yet it brought another problem which influences developing countries and welfare of their inhabitants till today. In agriculture, export promotion led to orientation on *cash crops*[9]. This disrupted the traditional system of subsistence farming which was/is a source of income and most importantly food for a large number of inhabitants. A lot of the sub-Saharan countries are nowadays less self-sufficient in food and production does not reflect the demographic growth. The problems with *hunger and malnutrition* have increased and food imports are rising in order to feed the inhabitants (Simon 1995:122). This again requires money that could be invested somewhere else. Since cash crops are usually planted in large fields of monocultures, the impact on the environment

[9] Products such as cotton, sugar cane, tobacco, coffee or cocoa that are grown for export not as food for people.

is larger, leading to deforestation, soil degradation and desertification (Eurodad 2006b:7). It is problematic because once established, these patterns of agriculture are not easy to change as people need the income from cash crops to buy food and other family needs and cannot return to subsistence farming due to the lack of money.

Second, in years following the introduction of the SAPs the *social welfare* of the inhabitants certainly did not improve and for a lot of them even worsened (see e.g. Oxfam 2006a:9). Limited government spending on health and education had disproportionate impact on the society as the poorest groups of people could not afford to finance health care and school fees themselves. Also the expenditure on wages if frozen may support multinational companies to invest in the country as the labour force is and will stay cheap, on the other hand, when the government needs to increase the amount of money given to the employees who demand this or threaten to strike, a certain number of people first needs to be dismissed to make any rise possible. As women are usually first to go if this happens, inequality rises even further. As argued by Mannin (1996:239) or Garg (1995:351) negative impacts of the SAPs on the society caused rising levels of repression in debtor states. Mainly in Latin America (e.g. in Argentina or Peru) there were series of social unrest when repressive actions had to enforce and maintain the conditions required by the BWIs.

Third, one of the main reasons why the SAPs failed may be seen in what can be defined as *"imposition of the policies"*. Stiglitz (2002:242) points out that if reforms are to work, there needs to be commitment to them. The imposition thus creates a vicious circle because the governments think that they have no other chance than to accept the requirements. They are therefore not persuaded about the effectiveness of the reforms and do not care if they are implemented correctly or not. This attitude may be proved by words of José Sarney, the President of Brazil, who said in 1987: "Adjustments are demanded on us which the developed countries give no signs of being willing to undertake in their own economies." (Todaro 1994:447).

The SAPs are further criticised by e.g. Stiglitz (2002:214-216,220) who focuses on questions of free market and inflation, or by the Meltzer Commission and Martin Feldstein (Krsek 2004:265) for limiting the sovereignty of developing countries because they had no other chance than to conform to requirements of the BWIs. On the other hand, their opponents such as Isard (2005:115) and Cline (1995:2) argue that the reforms were needed to lower spending and excessive borrowing, and to promote the outward-orientation because this was a way to avoid risks of being hit hard by external shocks and crises.

If contribution of the structural adjustment programmes to alleviating the debt crisis is to be evaluated, it needs to be said that despite having been designed to help, the SAPs did not improve and in certain countries even worsened the situation. It may be also interesting to look at different points of view and short/long term achievements. The World Bank report (Bradshaw, Wahl 1991:254) argued that the SAPs meant that there were both winners and losers but in the long run the way of life would be improved. On the other hand, a lot of the scholars whose arguments were mentioned here emphasised the declining living standards and social welfare. Wiarda (1990:415) and Todaro (1994:476) argue that in immediate perspective the programmes in Latin America were successful: no governments fell, defaults were avoided, there were no severe financial or political collapses and the ability to service debts improved but in the long run the SAPs caused depression, economic stagnation, rise of unemployment and decreasing income per capita. The same is true about sub-Saharan Africa (Simon 1995:19-20). Moreover, the problems caused by the SAPs were crucial for further development of the states because they could not be overcome in just a few years. The cuts in health and education expenditure resulted in a lot of people being left with health problems and no education.

7.3.2 The Heavily Indebted Poor Countries Initiatives

The Heavily Indebted Poor Countries Initiative (HIPCI I) introduced in 1996 was welcomed at first because it was seen as the first really long-term solution where debt relief and participation of all creditors including multilateral institutions were emphasised. It undermined the arguments about the SAPs being successful because it focused on poverty reduction so in fact its aim was to help people who were influenced by structural adjustment. Yet the first optimism did not last very long, and the HIPCI I started to be criticised for being too slow and ineffective, and had to be enhanced in 1999 (HIPCI II). Even then many of the problems were not overcome, and the main ones which limit the success of debt management are listed here.

First and foremost, the HIPCI II concentrates only on a very *limited number of countries* in need of debt relief. Although the eligibility criteria were lowered by the HIPCI II when compared to the original one, there is still a lot of countries that experience difficulty with repayments, yet their debt levels measured by purely economic indicators of debt to exports or debt service to exports ratios are seen as sustainable. On the other hand, if poverty indicators, education standards or life expectancy are taken into consideration, the situation does not seem to be that optimistic (Gunter 2002:7) as proved by the examples of Indonesia or Nigeria. Indonesian social situation worsened substantially due to the 1997 financial crisis after which the percentage of people living in poverty rose from 11 to over 40% (Thomas, 2001:77) but according to the economic indicators the country is not eligible for the HIPCI II. Raffer and Singer (2001:192) argue that Indonesia is avoided as it would prove to be too costly to creditors. Nigeria's GDP per capita and human development index rank the country among the poorest ones in the world (UNCTAD 2004:47). Again, it is not allowed to benefit from debt relief under the HIPCI II because Nigeria is not classified as an IDA-only borrower due to its oil reserves (UNCTAD 2004:47), and in 1998 it was removed from the list because its debt-service ratio, counted according to the actual sums of money paid, was seen as sustainable but in fact the country was unable to pay and accumulated *arrears*[10] (Raffer, Singer 2001:192). The same can be said about a lot of other countries such as Kenya where 62% of population live on less than $2/day (UNCTAD 2004:46-47). Peru with 49% of population living on less than $2/day is classified by the WB as a middle-income country not eligible for the HIPCI II while Honduras and Nicaragua qualified with proportions of 47% and 44% respectively (Potter 2000:77).

This is connected with the second argument against the HIPCI that it is not closely linked to the *Millennium Development Goals*. Even with partial debt relief granted by the HIPCI, projections show that the poor countries in sub-Saharan Africa will not reach the goals set by the UN till 2015. According to the Overseas Development Institute poverty will be cut only by 20%, Oxfam estimates that 50 million children will still be denied access to primary education and the UNICEF argues that the child mortality rate will equal 13,4% instead of the 5,2% required by the MDGs which means around 2 million more child deaths per year (all facts from Oxfam 2001:7-8). In addition, despite receiving debt relief a lot of the countries in sub-Saharan Africa still spend more money on debt repayments than on health. Zambia and

[10] Money that is owed to a creditor because repayments of debt were not made in time.

Malawi, countries with high HIV/AIDS prevalence, spend amounts equal to 130%, 100% respectively of their health budgets on debt servicing (Oxfam; Debt Relief and the HIV/AIDS Crisis in Africa, p.1).

Third, the Initiative is argued to be *too slow* in providing debt relief. Before the decision point a country needs to implement the required policies, and money is provided to support the reforms, which increases debt further and makes more debt relief necessary (Raffer, Singer 2001:186). Furthermore, the period between the qualification for the HIPCI II and reaching the decision point may be long (Tenuissen 2004:7). For instance, Uganda was originally supposed to reach the completion point under the HIPCI I in 1997. The date was postponed and calculation of debt sustainability was done in the period of high prices of coffee which reduced debt relief. Moreover, prolonging the period prior to relief having been granted negatively influenced planned start of a programme designed to make primary education of up to four children per family free. Partial relief was finally awarded in 2000 but the country received $15 billions less which constituted 40% of the resources planned for the Poverty Reduction Fund for years 2000 and 2001 (Raffer, Singer 2001:187).

Other problems of the HIPCI II include over-optimism. For instance, when it was introduced in 1999, the estimate was that 24 countries would reach the decision point by 2000, the result was only one state – Uganda – which should have originally achieved this already in 1997. There are more reasons why the HIPCI is not considered very successful such as scarce resources, conditionality and debt sustainability which are closely connected with the Bretton-Woods institutions and which are significant also for the MDRI. They will be therefore discussed in the fourth part of the text.

Despite the Initiative's new and praised features of partial debt relief and more focus on poverty as opposed to the SAPs, the results are not what the international community fighting for debt forgiveness expected. As argued by Alby and Letilly (2006:18) in reality it did not bring much of debt reduction because the countries even before the HIPCI I was introduced "did not pay more than 50% of the debt service due". Moreover, even if all the possibly eligible countries qualify, the Initiative will encompass only states that together do not owe more than "180 billion (the equivalent of the debt of a single country like Brazil or Mexico) out of a total debt for the developing countries amounting to $2,500 billion." (Alby, Letilly 2006:18). The authors of the African Development Report (2006:20) see the HIPCI II as too limited to change the situation substantially because it does not ensure the sustainability of debt servicing. Similarly the 1999 Latin American Report (Potter 2000:82) showed that the situation in the region was not stabilised in the 1990s. It stated that unemployment was higher than in the 1980s (e.g. Brazilian unemployment rate was the 4th highest in the world), wages had lost 27% of their value between 1980 and 1998, and inequality in society had risen (female unemployment rate was 60% higher than for men).

Given all the above-mentioned problems of the SAPs and the HIPCIs, it is may not be surprising that the debt relief process was not seen as very successful. The last few years of the 1990s were therefore connected with rise of an influential debt relief movement called Jubilee 2000 with supporters in both the North and the South which campaigned for a new start to the 21st century marked by improving debt relief schemes and more debts being cancelled. The main arguments of the movement were that the structural adjustment programmes failed, debt had already been repaid and that it was immoral, illegitimate and odious. These three concepts are worth describing in more detail:

- debt is *immoral* because it leads to social deprivation as money which could be invested into education, health and employment is used for debt servicing
- debt is *illegitimate* because a lot of money was used for ill-designed projects for which creditors (mainly the WB) are partially responsible. One of the examples may be the Bataan nuclear power plant in the Philippines which was built on an earthquake fault line with a volcano nearby and has never been used.
- debt is *odious* because loans were made to corrupt dictators to support the friendly regimes during the Cold War. Sharma and Kugar (2002:14) claim that nearly 25% of external debts are odious. It is argued that portions of these loans ended up in foreign accounts of leaders such as Mobotu in Zaire (the Republic of Congo) or Somoza regime in Nicaragua who fled with the money after victory of the Sandinista forces.

7.3.3 The Multilateral Debt Relief Initiative

The Multilateral Debt Relief Initiative (MDRI) was announced by the G-8 states in 2005. It promised to cancel debts of all the countries that are eligible for the HIPCI II and that owe money to the IMF, the International Development Association and the African Development Bank. This again means a step forward as it recognises that debt forgiveness, not just relief, is needed and multilateral creditors have to be involved in the process. On the other hand, despite the MDRI is still at the beginning and its progress is not easy to judge, there is already scepticism about its possible effects. The main reason is its link to the HIPCI. As argued by Raffer and Singer (2001:198) it is likely to have insufficient results as well due to the connection with the Initiative which did not prove to be very helpful. The possible difficulties of the MDRI that may hinder debt relief are considered here, and the analysis should show that these are really similar to the ones connected with the HIPCI II.

The first problem is again *limited number of countries and* also *creditors*. Eurodad (2006b:3) argues that only 27 out of more than 50 indebted poor countries will benefit from this scheme, and only 3 out of 19 multilateral creditors are involved in the process. For instance, Ghana owes money to as many as 9 multilateral creditors so the MDRI includes only one third of them (Oxfam 2005:14). Especially the exclusion of other important regional banks such as the Inter-American Development Bank and the Asian Development Bank is criticised. This is connected with the *issue of real cuts*. It may be argued that the 100% debt forgiveness is only a “rhetoric number”. The real reductions will be lower. For instance, the exclusion of the Inter-American Development Bank has an impact on the Latin American countries participating in the HIPCI. According to Eurodad (2006a:6) debt reduction will equal only 21% for Guyana, 23% for Nicaragua, 28% for Honduras and 31% for Bolivia. The situation in sub-Saharan Africa is better but far from 100% debt forgiveness as well. The countries with the lowest amounts of debt cancelled are Mali with 56% and Mozambique with 48% (Eurodad 2006a:6). Jubilee 2000 (2006:2) argues that in 2007 the reduction equals only $1 billion. Since as much as $10 billion per year is needed to cut debt-service payments if the poor countries are to achieve the MDGs by 2015, the current amount of debt reduction is just 10% of the estimates.

On the other hand, the money released by the MDRI will certainly prove to be beneficial for developing countries as it may be invested into development. The biggest beneficiaries of the MDRI will be Uganda with 80% of its debt cancelled, followed by Ghana and Tanzania with 75% (Jubilee 2000 2006:3). The connection of the MDRI with the HIPCI also means that the process of debt relief is faster as countries do not need to go through a new process of qualification and reforms. The total amount expected to be forgiven is around $50 billion over 40 years (Jubilee 2000 2006:2). Even though it may seem to be an achievement, its significance can be disputed when compared with agriculture subsidizes in the EU which reach $300 billion a year (Lebeda 2005:14).

In order to summarise, it may be argued that the debt relief process has not failed completely if the results of the main three debt management initiatives mentioned above are taken into account. There are achievements in overcoming the myth that debts can be repaid and in granting debt relief and forgiveness to the countries which are most in need of it. On the other hand, as was shown in this part of the text the progress of various initiatives is too slow and limited in the number of states and creditors. Even though the debt crisis may seem to be solved for good after Gleneagles, according to Jubilee Debt Campaign (2008:17) the debt of all the developing countries is $2,742 billion but the promised debt cancellation equals only $100 billion, out of which $88 billion has been delivered so far. Furthermore, only few commercial creditors such as banks and private companies are participating properly in the process.

In short, the progress of debt relief so far has been tied to only a few steps. These were divided by a substantial time gap but each one brought innovations. The structural adjustment programmes were the first attempts to tackle the situation three years after the break of the debt crisis. Ten years later the Heavily Indebted Poor Countries Initiative brought real debt relief, and again ten years later the Multilateral Debt Relief Initiative granted debt forgiveness. But all these steps are too limited in their impact on alleviating the debt problems in the developing world. It may be therefore interesting to see if in approximately 10 years' time a new initiative will be announced again, going again a step further and meaning more reduction for more countries. It may well be the case because 2016 will be a year of evaluating the progress of the MDGs, and if the targets are not met, there will be time for new planning of the way forward.

7.4 The Reasons of Debt Relief Limited Success

The impact of the main debt relief initiatives having been evaluated, this part tries to find reasons that explain why programmes such as the SAPs, the HIPCIs and the MDRI have not been as successful and helpful as debtor countries and NGOs such as Jubilee 2000, Oxfam or Eurodad have hoped. The role of the Bretton-Woods institutions and both developing and developed countries in the process of debt management will be analysed and the possible causes of slow progress of debt relief emphasised.

7.4.1 Problems connected with the International Monetary Fund and the World Bank

The main barriers to faster and more effective debt relief connected with the BWIs can be found in the *nature of the WB and the IMF* as their original aims were completely different from the present-day objectives, which limited and limits their scope of actions in the developing world. In addition, the influence of *conditionality*, *debt sustainability* calculations and the *moral hazard* issue will be examined.

7.4.1.1 Nature of the Bretton-Woods Institutions

The World Bank and the International Monetary Fund were founded in 1944 at the *Bretton-Woods conference* which took place in the USA in order to provide forum for discussions about the post-war economic order and reconstruction. Isard (2005:26) argues that already at the beginning there was not a clear view of what the new institutions' role in the world should have been because the final agreement was a compromise between advocates of laissez-fair and interventionism. To make the matters more complicated, the IMF was originally supposed to be a bank ("world central bank") and the WB just a fund for financing the reconstruction of Europe. Keynes who was one of the main initiators of the conference regarded the new system ineffective and criticised the lack of finance approved for the BWIs because according to him this undermined the institutions' ability to act in case of a global crisis (Potter 2000:19). He was proved right by the situation in the 1980s. On the other hand, the conference and its final agreements need to be viewed in the context of the historical period. At that time Latin American states were the only "post-colonial" countries and they were relatively stable economies (e.g. Argentina was one of the richest countries in the world if measured by GDP per capita, see Raffer, Singer 2001:4), and no one probably dared to expect such a large wave of decolonisation which took place in the following decades.

The agenda of the Breton-Woods conference included one more interesting feature. Keynes's *four-pillars proposal*[11] contained also *the International Trade Organization* (ITO) which was supposed to be created along the two existing BWIs. Its main aim was to ensure stability of commodity prices which was and still is crucial for developing countries' exports. Nevertheless, such agreement was impossible to achieve. Raffer and Singer (2001:5-6) speculate that had the ITO been created, there may not have been the oil crises and such fall of commodity prices, which would have prevented the current accounts deficits and the debt crisis of such extent.

The original task of the IMF was promoting global economic and exchange rates stability, international monetary cooperation and providing resources for members who experienced deficits of their current accounts. This should have helped to stop countries trying to gain trade advantages by currency devaluation[12]. The aims of the International Bank for Reconstruction and Development, from which the WB developed, were to assist the European countries in post-war reconstruction. However, its role was undermined by the Marshall Plan which was announced in 1947. In the 1970s also the IMF lost its main duty after the system of fixed exchange rates collapsed. The institutions were therefore made to find a new position in the world if they were to survive the changes.

The new focus became the developing world which was in need of capital to finance its development. Yet, the BWIs were founded with completely different original purposes and their *involvement in development agenda* could not therefore be without problems and limitations because they were not prepared for the new functions. For example, the new activities went beyond the traditional format of negotiations between finance ministers or central banks. Suddenly the BWIs found themselves in position of negotiating and supervising the SAPs with policies affecting health care or education with which they did not have any experience, and it is thus not surprising that some of the decisions made at the beginning were not the best ones (Woods 2001:89). Lack of expertise may also be one of the reasons of inflexible behaviour of the BWIs which is criticised e.g. by Krsek (2004:267) or Marková (2002:88) who argue that especially the IMF often uses schematic and simplistic solutions without any regard to country specifics, which causes more harm than good such as in case of the Asian financial crisis. The traditional approach of treating the current accounts deficits as failures of state policies which can be overcome by temporary loans also influenced the policies pursued by the BWIs at the outset of the debt crisis when the institutions agreed

[11] The four pillars were: the WB, the IMF, the ITO and an aid programme provided by the UN.
[12] It is therefore paradoxical that the IMF required developing countries to do this in the SAPs.

with the liquidity as opposed to the solvency problem argument and supported rescheduling and further lending, which delayed debt relief.

The Bretton-Woods institutions were not founded as banks that will be supposed to finance debt relief of developing countries, and their resources are therefore insufficient to play this role successfully. Contrary to individual countries, the IMF and the WB do not have annual budgets to support the debt relief initiatives and they depend on capital provided by the member states, and also on debtor countries' capacity to repay their debts (Alby, Letilly 2006:19). The BWIs can thus make promises such as debt forgiveness under the MDRI but the final decision is often in hands of the developed countries and their willingness to contribute. The success of such initiatives which require long-term involvement of bilateral donors can thus be threatened by decisions of the industrialized countries' governments about staying committed to the promises which were made e.g. by previous governments (Alby, Letilly 2006:22).

7.4.1.2 Conditionality

There is a number of ways how conditionality can hinder debt relief. For example, it may undermine governments' decision-making and priorities and increase their resistance to the required reforms, which results in poor monitoring of their effectiveness (African Development Report 2006:56). Contrary to this, Isard (2005:96) claims that the specific conditions are always negotiated by both parties of the contract so the argument about imposition of policies is not accurate. Conditionality may also increase transaction costs especially when more actors need to be involved in the process, and frequently required macroeconomic reforms slow down the process of debt relief because first they must be implemented, second macroeconomic stability needs to be maintained and only then the promised money is granted. Furthermore, *economic conditionality* connected with the SAPs is believed to have helped to introduce *political conditionality* of aid (Parkins 1996:67) since its provision started to be linked to reports by the IMF about meeting the macroeconomic standards (Oxfam: The IMF and the Millennium Goals, p. 5).

The impact of conditionality on debt relief can be illustrated by an example of the HIPCI II. Its required preparation of the Poverty Reduction Strategy Papers is criticised by countries such as Brazil or India because they see the *compulsory civil society participation* as a new barrier which slows down the process (Potter 2000:28). Moreover, this demand is not always very easy to fulfil. The NGOs from Bolivia, Uganda or Tanzania claim that they were invited to participate too late, a lot of the key players were excluded and almost all the major documents were in English (Potter 2000:34). The current requirement to spend all savings from debt service only on social expenditures is also seen by most of the debtor countries as highly inappropriate and inflexible (Tenuissen 2004:6).

The World Bank argues that the number of conditions decreased from average 32 per loan in 1999 to 11 in 2006 (Oxfam 2006a:11). Yet the situation is different if *policy benchmarks* that are linked with aid provided by the institution are taken into account. These are not considered as being conditions because failure to adhere to them cannot stop the aid inflow. On the other hand, Oxfam argues (2006a:11) that progress in implementing the benchmarks is discussed by the Executive Board before a loan is granted, and that recipient countries see these as conditions. If benchmarks are included, the number of conditions required by the WB rose from 20 per loan in 2000 to 38 in 2006 (Oxfam 2006a:11).

Beside opponents of conditionality, there are also its supporters. Rogoff (2003) argues that the governments usually ask the IMF for help when it is already too late and when they are in great difficulties. Only strict policies may thus change the problematic situation, and the BWIs are often blamed for steps the government would have to take anyway to overcome the difficulties. Isard (2005:110) supports this argument and adds that the IMF funds are limited, which means that such measures need to be imposed that will decrease borrowing and enable repayment of debts.

7.4.1.3 Debt Sustainability

The concept of debt sustainability was first introduced by the HIPCI I in 1996. It was welcomed because of the focus on the ability of debtor countries to service their debts. Despite its innovative approach to the amount of debt relief required, the HIPCI is often criticised for failing to deliver what it promised by NGOs such as Oxfam, Eurodad or Jubilee 2000 and also the Commission for Africa. Some of the main arguments against the accuracy of debt sustainability provided by the HIPCI will be summarised here.

First, there is a problem with calculating the *real sustainability of debts*[13] mainly because the used methodology lowers the debt burdens (Raffer, Singer 2001:189). As shown by Edwards (2003:520-521) on the example of Nicaragua in 2000 the real proportion of debt to GDP was 280% not the BWIs projection of 180%. Another fact which according to Raffer and Singer (2001:176) leads to flawed results is that the ability to pay which is crucial for judging debt sustainability for a given country is counted according to the payments made not due, which makes the debt situation seem to be less troublesome than it may actually be because the calculation will produce the same result if the government is able to pay all obligations but also when it is not able to pay at all.

Second, the BWIs are believed to be too *optimistic* in *projections* of future debt sustainability of the post-completion point HIPCI countries. For example, forecasts for Zambia for the period between 2000 and 2003 estimated the export earnings to reach $1.3 billion but the reality was $1.1 billion (Eurodad 2006b:13), a difference of around 15%. The sustainability target which is debt to exports ratio of 150% was not achieved, instead the number was 184% (Eurodad 2006b:13). The main reason for this miscalculation was slower than expected growth of copper prices on the world market which are important for Zambia's export income (Eurodad 2006b:13). In 2002 the IMF estimated export growth of the 24 countries that participated in the HIPCI to increase by 11.6% while the real outcome proved to be only 5.8% (Oxfam: Debt Relief and the HIV/AIDS Crisis in Africa:19). Additional debt relief also had to be granted to countries such as Rwanda, Ethiopia, Burkina Faso or Niger so that their levels of debt were really sustainable. The "topping up" was $243.1 million for Rwanda, $700 million for Ethiopia and $128.6, respectively $142.5 million in case of Burkina Faso and Niger (Eurodad 2006b:21).

Third, only a few and purely *economic indicators*[14] are taken into account when evaluating the level of debt sustainability. A lot of the HIPCI countries struggle with massive *domestic indebtedness* which influences their ability to service debts. For example, in 1999/2000 Kenya spent twice the amount needed for servicing the external debt on repayments of the domestic

[13] The details of the actual mathematic operations are not relevant for this text, and can be found in literature connected with this topic. The main problem is argued to be the use of net present value instead of real value of the debt service ratios.

[14] Debt to exports ratio, debt service ratio, and sometimes debt to GDP ratio.

ones (Reinhart et al. 2003:32). The private debts[15] of developing countries can also undermine the forecasts of debt sustainability because the interest rates are usually variable and dependent on the situation on the world market (Reinhart et al. 2003:32). The fact that the HIPCI debt sustainability indicators are only economic is paradoxical because the Initiative focuses on reduction of poverty and the countries are required to create the PRSPs. Yet poverty levels are not considered when defining whether the debt is sustainable or not. It may thus seem that sustainability merely means financial capacity to repay debts because if the initiatives were really designed to change the situation of the indebted countries, they should more concentrate more on the capacity of a country to reach the MDGs ((Eurodad 2006b:3; Oxfam 2005:10).

7.4.1.4 Moral Hazard

Slow progress of debt relief mainly at the beginning of the debt crisis may also be connected with the moral hazard argument. Any calls for relief or debt forgiveness were rejected because this was seen as rewarding the "bad practices" of the states that accumulated massive debts. Any help in form of even only partial debt cancellation may thus have encouraged the countries to continue borrowing excessively without proper planning and implementing appropriate reforms to improve the situation because they would expect the BWIs to bail them out in case of a crisis. This would lead to constant reoccurrences of financial crises which could develop into being more and more serious. The countries would get used to the help of the BWIs and would rely on it. Furthermore, debt relief would disadvantage the governments that managed to keep their debts at sustainable levels and were willing to take adequate steps to prevent severe fiscal imbalances of their current accounts.

This argument may be valid but the evidence shows that most of the debtor countries repay the money owed to the WB and the IMF if not in time then late but they do not try to avoid it (Rogoff 2003; Isard 2005:197). Due to the experience with behaviour of debtor states that were in most cases not unwilling to meet their obligations, the moral hazard argument slowly lost its appeal and the ideas of necessity of debt relief and forgiveness started to be accepted by the international community.

7.4.2 Capacity of debtor countries to manage debt relief

The success of various debt relief initiatives depends on the recipient states' ability and capacities to manage the process effectively and to make use of the available resources and advantages in their full extent. Stiglitz (2002:251) argues that it is the developing countries' responsibility to alleviate debt problems by proper budget management and effective policies of fighting corruption, increasing accountability and ensuring the democratic rule which are prerequisites of keeping debts at sustainable levels. Debt reduction also depends on implementing the economic reforms which will lead to economic growth and development in the long run (Alby, Letilly 2006:22-23). Yet difficulties with which a lot of the debtor countries have to struggle every day hinder the governments' capabilities to devote large proportions of their time to questions of indebtedness and debt servicing because there are other problems which need more attention. The most serious ones such as HIV/AIDS, malnutrition, poverty and civil strife will be briefly described here.

[15] Debts owed to private companies, banks or individuals as opposed to *official debt* where the creditors are governments or multilateral institutions.

The HIV/AIDS epidemic is one of the biggest challenges that sub-Saharan Africa faces nowadays. In 2004 the number of inhabitants of this region constituted only 10% of the world population but around 66% of all the HIV positive people lived in sub-Saharan Africa (UNAIDS 2004:6). In 2005 the highest HIV prevalence of all the HIPCI countries was found in Botswana (24.1%), Zambia (17.0%) and Malawi (14.1%) (UNAIDS 2007:11). The illness influences multiple aspects of everyday life in these countries: the life expectancy decreases (e.g. without HIV/AIDS the life expectancy in Botswana would increase by 34 years, in Zambia by 18 years and in Malawi by 14 years, see UN 2001), the poverty levels increase as ill people cannot work and families need money for medicine. The epidemic causes social problems because women tend to be more influenced than men, puts more pressure on health and social benefits systems, and hinders the economic growth due to the lack of workforce.

Malnutrition and hunger are other difficulties. Again, they are more important that debt problems because they undermine economy of a state by decreasing number of people able to work and increasing demands on health and food provision. In absolute terms the most serious situation is in Asia but the worst proportions of undernourished people in total population are found in sub-Saharan Africa again. In the period between 2001 and 2003 the indicator for the whole region was 32%, Eritrea, the Democratic Republic of Congo and Burundi being the worst countries with 73%, respectively 72% and 67% (FAO 2006:32-33). Four countries in Latin America (Bolivia, Haiti, Honduras and Nicaragua) were also among states with the worst malnutrition statistics.

Poverty levels if defined by income lower than $2 per person per day are the highest in the HIPCI countries which is obvious as they qualified for debt relief under the Initiative with main aim of reducing the number of poor people. Between 1990 and 2004 the highest proportion of poor people lived in Zambia (94.1%), Mali (90.6%) and Tanzania (89.9%). In Latin America it was 82.9% in Nicaragua and 78.0 in Haiti (UN 2006:293-294).

Other problems that negatively influence debt relief management include widespread *corruption*, *civil strife and conflicts* (both tribal as well as those between the original inhabitants and the citizens of European origin) and *economic stagnation*. Especially Latin America has been experiencing turbulent political changes recently with left-wing leaders and socialist models of economy becoming more prominent. Furthermore, a lot of debtor countries are not able to use the available capital (e.g. aid or foreign direct investment) effectively and do not have capacities to monitor the external debt situation (Adedeji 1985:60-61). Instead of accepting partial responsibility for slow progress of development, a lot of the governments find excuses in blaming the developed world and the BWIs for imperialism and neo-colonialism.

7.4.3 Commitment of the developed world

The extent of debt relief and forgiveness also depends on will of the developed world to support the announced programmes. Unwillingness to do so may negatively influence the debt situation, which happened in the 1980s when creditor countries tended to see the crisis as a temporary one and did not support any initiatives that advocated relief as the only long-term solution to the problem. Although the attitude slowly changed in favour of debt relief proposals, the long-term commitment of the North to financing development of the South is questionable as it was highly variable during the last few decades.

There have already been a lot of promises made regarding support of development by the developed countries but these were not delivered. This is mainly true about *development aid*. The target of 0.7% of GDP devoted to *official development assistance* (ODA) was first announced by the OECD countries in 1969. Since then only a few countries have met the agreed objective. The World Bank report (2007:149) which analyses the ODA levels also states that the increase in global aid has stopped. Having reached the peak in 2005, the 2006 figures were 5% lower and they were estimated to fall further. The aid flows promised in Gleneagles are therefore unlikely to be fulfilled.

Contrary to promises from the G-8 summit in 2005, the MDRI relief provided by the World Bank now only covers debts that were owed till the end of 2003 instead of 2004. The 1-year difference means "saving" of $5 billion (Oxfam 2006b:3). The difficulties in keeping the set targets may arise from changing governments of the industrialized countries. Since most of the ODA agreements are usually in forms of declarations rather than legally binding contracts, a new government of a particular state thus does not need to feel obliged by promises of the preceding one.

In addition, any successful solution to debt and economic problems of developing countries in general is not possible without changing the patterns of the *world economy* and *trade relations* because only aid and debt relief are insufficient measures to allow long-term growth of the global South. Gaining unrestricted access to the developed states' markets in areas such as agriculture and primary commodities production is crucial for further development of debtor countries. After the Gleneagles summit there were hopes that the *Doha round* of the WTO negotiations could accelerate but the talks in Hong Kong at the end of 2005 did not bring any substantial improvement. The promise that 97% of exports from the least developed countries would be free of duty or quotas may not be considered as a step further because it left out the key export areas (Eurodad 2006a:10). The negotiations held in Potsdam in June 2007 ended in stalemate again because of disagreements between the USA, the EU, India and Brazil about opening the agricultural markets and cutting the subsidies in the industrialized countries. This shows that commitment to reforming the present state of international trade and economy is not particularly strong among the developed countries.

7.4.4 Lack of lobbying power

Debtor countries have never been able to create a "cartel" and agree on joint strategy, which negatively influences their bargaining power. The problem is that the South is far more differentiated than the North (Ravenhill 1990:731-732) when it comes to economic situation and other characteristics such as the level of development, common interests and similar history and values. The status of the big debtors such as Brazil and Mexico was completely different to the one of states in sub-Saharan Africa. Brazil was the world's 8th largest economy if measured by the GDP (Isard 2005:149), and the largest debtor with potential to cause collapse of several private banks in case of default. Mexico profited from its proximity to the USA. Both countries thus had better bargaining position (Wiarda 1990:415), and did not see any advantages in supporting debt relief for the whole group because it would result in their loss of money.

The creditor countries were able to use all these differences to their advantage. They were unified in blocs such as *the Paris Club*, and insisted on case-by-case approach to debtors (Pilbeam 1998:419). Different attitudes to different states were used to prevent any joint action by developing countries (Ravenhill 1990:753). For instance, Brazil and Mexico gained preferential treatment (such as in Baker or Brady Plans) so that there would be no incentives from their side to help the smaller states (Ravenhill 1990:758). Moreover, the pro-export strategies required by the SAPs increased competition between debtor countries which further diminished any opportunity for collective action.

The same may be said about the NGOs campaigning for debt relief. Most of them are based in the North (Potter 2000:125) and they thus have different attitudes to what is really needed. This may be illustrated by disagreements within Jubilee 2000 between the southern and northern members (Potter 2000:128-130) the latter being accused of insufficient support to the more radical southern requirements. Furthermore, despite the increased cooperation in 2005, any NGOs collective campaign strategy has not been very evident either.

7.5 Conclusion

The aim of this chapter was to evaluate progress of debt management between the 1980s and the new millennium, to analyse present-day situation of the debtor states in Latin America and sub-Saharan Africa, and to provide arguments supporting the hypothesis that developing countries have not been as successful in promoting debt relief as they may seem to be because the process of debt relief does not depend only on their initiatives but also on other factors such as will of the developed world and private creditors, capacities of the institutions such as the WB or the IMF, and abilities of debtor countries themselves to manage the process effectively and to negotiate with the countries of the global North successfully. The main debt relief initiatives and their contribution to alleviating indebtedness were assessed and their main problematic features were described. The last part of the text tried to answer the question what the possible reasons of relatively slow and limited progress of granting debt relief may be.

The problem with all the three main relief initiatives namely the structural adjustment programmes, the Heavily Indebted Poor Countries Initiative, and the Multilateral Debt Relief Initiative is that they did not/do not provide any long-term solution for all the debtor states. The SAPs supported only changes in countries' economies, and further lending and rescheduling as a form of overcoming the crisis. Moreover, in a lot of the states they resulted in increasing levels of poverty and inequality, and the cuts in governments' spending made poor people's access to education and proper health care more difficult, which may continue to negatively influence the countries for a few more decades. It can be argued that the HIPCI and the MDRI are more ambitious projects because there is a promise of partial debt relief or forgiveness to the states that qualify and meet the required criteria. On the other hand, as explained in detail in the third part of this text the two initiatives are also not without problems. They are limited in number of both debtor countries and creditors that participate in the process. It is questionable if the HIPC provides relief which ensures debt sustainability, and 100% debt forgiveness under the MDRI is an optimistic but an unreal target. It may be said that that both the HIPCI and the MDRI promise more than it is possible to accomplish.

The reasons of limited debt relief achievements can be attributed to efficiency of the BWIs involvement in the debt crisis, other problems that debtor countries need to face every day, and willingness of the developed world to spend money on the global South. The World Bank and the International Monetary Fund were founded to perform completely different roles than they do today, which limits their levels of expertise and financial capacities to help. There is need to re-consider gains of conditionality which is connected with the programmes, and to change the negotiating standards so that recipient countries would be more involved and did not understand the requirements as being imposed on them. Debt sustainability calculations should take into account not only economic indicators but also question the state's capability of meeting the MDGs and of developing basis for economic growth (Eurodad 2006b:5). In order for debt relief to succeed, the willingness of the developed countries to provide necessary finance, to change the patterns of global economy and trade and to stay committed to the process is needed. A lot of domestic problems such as the HIV/AIDS epidemic, hunger, poverty, civil conflicts or corruption and unstable regimes is what probably hinders debt relief the most, and all of these difficulties are not easy to overcome in a short period of time. It is therefore possible to ask whether the debt relief process has potential to be successful and how effective it is but this is a topic for a different text than this one.

On the other hand, although there have been and there are problems connected with debt relief and forgiveness, it would be a mistake to resign on trying to find possible ways of alleviating indebtedness of debtor countries because without any help economic growth and development in general will be even less likely to be achieved. Furthermore, according to Garg (1995:355) debt forgiveness is beneficial for both the debtors and creditors. For the first ones, less money devoted to repayments can result in better prospect of prosperity; for the latter ones, lower debts of developing countries mean that these can import more goods and attract foreign investment. It may thus be argued that debt forgiveness is a win-win situation for all but the only problem is that given the present state of the world and international relations, this is probably such an idealistic suggestion that it is not going to be followed.

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