European Youth Debate @ EXPO 2015

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Road to zero poverty

Should the EU keep supporting the HIPC Initiative or should it advocate for a reform?

In 1996 the International Monetary Fund (IMF) and the World Bank launched the HIPCI, the first coordinated effort by the international financial community to reduce the foreign debt of the world's poorest countries. Since then several agreements have been reached to reduce the external debt of heavily indebted developing countries, but the results are inhomogeneous and ambiguous and the conditions these States have to meet in order to be eligible for a debt cut are arguable.

The two positions under debate reflect two different perspectives on the theme:

Position A *supports the thesis that the HIPC initiative is inadequate, and put a lot of pressure on the international community asking for a deep reform of this programme.*

Position B *supports instead the thesis that the HIPC initiative is valuable, and that the EU should keep supporting it in the international organisations, as well as try to convince other states to apply for it and make the reforms within the Structural Adjustment programmes.*

Position A: HIPCI is inadequate

The argument against the Heavily Indebted Poor Countries Initiative conditions involves a critique both of the conditions themselves and the macroeconomic targets and theoretical understandings of "sustainable" debt from which they derive.
It was discovered that the HIPC rests on a number of complex criteria, which restrict eligible conditions. Empirical evidence has analyzed the cases of Bangladesh and Cambodia. Although these countries were poor and highly indebted, they were not able to meet the criteria. Similarly Nigeria, although only eligible for debt relief, was still excluded because it was not an IDA-only country. Bangladesh and Cambodia in spite of being poor and highly indebted have not yet been included in the HIPC.
In regards to structural adjustment conditions, Jubilee reports that countries undergoing the HIPCI process must observe ten to twenty direct conditions, some of which require

compliance with other International Financial Institutions programs with their own set of additional conditions. Failure to fulfill these conditions results in debt relief suspensions, which have amounted to over $1.5 billion of debt service payments by countries, which had passed the decision point by 2005. In addition to obstructing the access of indebted countries to debt relief, the generic nature of International Financial Institutions conditions has caused massive economic dislocations in countries with economies maladapted to reform requirements. In cases of extreme indebtedness, the debt itself might set up incentives that are adverse to significant adjustment or liberalization. The historical experience with liberalization alone, and with stabilization alone, are not very encouraging. The difficulties of combining the two policy initiatives are formidable. The historical record suggests that it is virtually impossible to bring inflation under control, while simultaneously trying to liberalize the economy. One is hard pressed to find an example of an economy, which stabilized, liberalized, and improved the external position all at the same time. For instance, among countries that have reached completion point, Nicaragua has had to privatize utilities such as water and electricity, driving electricity prices up by 300 percent. This development has rendered the poor incapable of affording electrical service and has resulted in frequent blackouts.

Conditions to open economies toward imports would grant developed nations more access to markets in the developing world, and harsh conditions, which cause many HIPCI participants to fall off-track, would allow the creditor International Financial Institutions orchestrating the HIPCI program to collect more service payments on debts that otherwise would yield no return.

Moreover, the HIPC ignores exogenous economic shocks that unavoidably affect many debt-burdened countries. In the case of Uganda, the fall of global commodity prices damaged its economy and particularly its exports, a main source of its foreign exchange earnings.

The HIPC is also a very slow process. For instance Bolivia, Mauritania and particularly Uganda, the first and best candidate of the HIPC, had to wait for months until their creditors distributed the responsibility of funding the relief. By 2009 only 15 countries had reached the completion point of the HIPC.

In addition to undermining sovereignty and democracy, the current system of conditionality exacerbates the economic instability it seeks to mitigate because it imposes “uniform” conditions on countries with a variety of different “national circumstances”. Thus, the fundamental flaw of the current HIPCI program lies in its failure to ground conditionality within the context of country-specific needs. Instead, conditions of the HIPCI program are dedicated to preventing recipient countries from relapsing into a state of “unsustainable” debt as defined by the debt to average export and net present value of debt to revenue ratios. Many economists along with other scholars of the debt crisis have argued that HIPCI sustainability criteria have little, if any, impact on measuring the true degree of debt sustainability. HIPCI employs overly optimistic expectations of future growth that leave indebted countries with fewer funds through debt relief than actually required.

Position B: HIPCI is valuable

Assuming that the original HIPCI framework could not sufficiently resolve the debt crisis, the IMF and World Bank enhanced the initiative in order to provide deeper and faster debt relief. The enhanced HIPCI (the present form of HIPCI) lowered the ratios that qualify a country as heavily indebted, and -as they now stand- a country must have a total external debt to average export ratio exceeding 150 percent or, in the case of a country exceptionally open to exports (defined as an export to GDP ratio of 30 percent), a net present value of debt to revenue ratio above 250 percent.

Poverty is not caused by debt, but both poverty and an unsustainable debt burden are symptomatic manifestations of greater underlying economic problems. Reducing debt levels cannot mitigate poverty, as many NGOs such as Oxfam and Jubilee might claim, without addressing their common root causes.

Proponents of the status quo of structural adjustment conditions defend the need for indebted countries to reduce government spending, noting that “fiscal deficits have been a vital source of current account deficits and external debt”. Likewise, significant concern exists that heavily indebted poor countries lack “basic institutions of accountability” necessary to ensure that funds made available through HIPCI debt relief would actually contribute toward humanitarian causes, such as primary education and healthcare, in the absence of basic debt relief qualification conditions. Many NGOs defend the behavior of HIPCI beneficiaries. Oxfam, for example, stresses that “poverty reducing expenditures in African HIPCI countries have increased on average by 6 percent as a result of HIPCI debt relief and as much as 14 percent in some countries” and notes “very little evidence that debt relief has been used indirectly to support government spending in other areas, such as the military,” citing a 2002 study by Jubilee Research, which found that debt relief increased spending in education and health but that military expenditure remained virtually constant. In spite of what appears a responsible use of HIPCI funds, the corruption and lack of infrastructure rampant in many of these developing nations casts serious doubt on their ability to fulfill humanitarian goals such as the MDGs without at least moderate supervision.

Moreover, many scholars defend the potential, theoretical benefits of conditionality. They note, “HIPCI governments would not necessarily use the funds now allocated to debt payments to tackle the problems of the poor. In fact, some HIPCs had no policy responses to poverty, AIDS, or corruption until they were required to develop them as conditions for debt relief under the HIPC Initiative.”

The optimistic appraisals of NGOs, such as Oxfam and Jubilee, that HIPCI recipients, if left to their own devices, would responsibly utilize funds freed from debt service payment may have hitherto held true in practice but cannot be guaranteed, let alone expected, in the absence of conditions. Attainment of Millennium Development Goals, such as the eradication of poverty and communicable disease, cannot occur if developing nations fail to formulate policies to combat poverty and HIV/AIDS. Insofar as it fosters such policy and infrastructure developments in HIPCs, conditionality facilitates efforts to reduce poverty and fulfill the MDGs. Implementation of poverty reduction measures such as a Poverty Reduction Strategy Papers remain important, but “macroeconomic stability,” as defined by a debt to average export ratio exceeding 150 percent or a net present value of debt to revenue ratio above 250 percent, remains the primary determinant by which IFIs evaluate the success of their debt relief endeavors.

In conclusion, The Fund and Bank have a right to safeguard the resources transferred to them by member governments. Although conditionality remains controversial and generates resentment from time to time, it is hard to deny that those who provide assistance and loans can legitimately take an active interest in the design of the recipient country's policies. During this author's 1992 meeting in Lusaka (Zambia) with Mr. John Hill (then Resident IMF Representative), he had this to say: "Conditionality is legitimate. You can't expect to borrow and use somebody else's money and not pay back".

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