New Political Economy ›
Volume 11, 2006 - Issue 1

Commentary

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Pages 125-140 | Published online: 01 Jun 2006
Cite this article https://doi.org/10.1080/13563460500494958

New Political Economy, Vol. 11, No. 1, March 2006

Routledge
Taylor & Francis Group

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Another World Order? The Bush Administration and HIPC Debt Cancellation

ERIC HELLEINER & GEOFFREY CAMERON

In mid-2005, the Group of Seven (G7) finally accepted the argument that the multilateral debt of many poor countries should be wiped out entirely. The decision was an important one in the recent tortured history of multilateral debt relief that began almost a decade earlier with the 1996 Highly Indebted Poor Country (HIPC) initiative. That earlier initiative had first identified 41 countries that could be eligible for write-downs of their debts to multilateral financial institutions, including the World Bank's International Development Association (IDA), the International Monetary Fund (IMF) and regional development banks such as the African Development Bank (AfDB). Its goal had *not* been to wipe out the debts of these countries but rather simply to make them 'sustainable', a concept that was defined at the time in a highly restrictive manner. Countries were also not eligible for the promised debt relief until they had implemented IMF-backed economic reforms: an initial amount of debt relief was offered at a 'decision point' after reforms had been in place for three years, while the remainder was released only at a 'completion point' after six years of reforms.

In the face of widespread protests mobilised by the worldwide Jubilee movement, the G7 leaders soon acknowledged that very few countries were qualifying for multilateral debt relief under the HIPC initiative and that the relief offered was too little and too slow. At their Cologne summit in 1999, they announced an Enhanced HIPC initiative that claimed to respond to calls for faster, deeper and broader multilateral debt relief. The definition of debt sustainability was made less restrictive, more debt relief was offered at the decision point and the completion point could now be reached earlier than the six-year timeframe according to policy reform performance. In addition, debt relief was now tied more explicitly to poverty reduction measures in recipient countries. But these changes still fell far

Acknow

This article was completed in August 2005. For their assistance, we are grateful to the Social Sciences and Humanities Research Council of Canada and the Canada Research Chair program. We are also grateful to Tom Callaghy for his comments.

Notes

1. See, for example, Rob Dixon & Paul Williams, ‘Tough on Debt, Tough on the Causes of Debt? New Labour's Third Way Foreign Policy’, British Journal of Politics and International Relations, Vol. 3, No. 3 (2001), pp. 150–72.

2. See for example Jubilee USA Network, ‘2004 in Review: Progress Towards 100% Cancellation’, mimeo, November 2004.

3. Walter Kansteiner (Assistant Secretary of State for African Affairs in the State Departments) quoted in Emad Mekay, ‘Jeffrey Sachs to poor nations: “forget debt, spend on AIDS”’, SUNS News Service, 2 August 2002. For Sachs’ ideas, see Jeffrey Sachs, ‘Resolving the Debt Crisis of Low-Income Countries’, Brookings Papers on Economic Activity, Vol. 1 (2002), pp. 1–28.

4. ‘Delivering on Debt Relief: Finishing the Job HIPC Started’, Center for Global Development, 22 April 2004, http://www.cgdev.org/Events/HIPC.cfm (accessed 1 June 2005).

5. See for example Nancy Ognanovich, ‘G-8 backs modest debt relief steps, but turns down full forgiveness of debts’, International Business and Finance Daily (Bureau of National Affairs, Washington), 11 June 2004.

6. Paul Blustein, ‘US wants to cancel poorest nations’ debt’, The Washington Post, 14 Septemb ... oor nations’, Wall Stre ...

7. Brett ... poor coun ...

8. Andre ... all deal on debt reli ...

9. See for example Nancy Birdsall & John Williamson, Gold for Debt: What's New and What Next? (Center for Global Development, 2005).

10. About one-third of the IMF's gold had also been sold in the late 1970s and half of the proceeds had been used to finance concessional loans to low-income countries. See Birdsall & Williamson, Gold for Debt.

11. The case for this approach was made effectively in a paper prepared for the Commission for Africa by some analysts from Debt Relief International who noted that 'African governments see the liquidity burden of their debt as a more critical barrier to development than that of the debt overhang' (p. 53). In their view, this strategy was 'the most cost-effective use of funds in the context of limited resources … Even if sufficient money were available to cancel 100 per cent of debt up front, it would not be the most desirable option for Africa, as it would mean diverting funds away from funding the Millennium Development Goals in other countries, in order to cancel debt service which does not fall due for more than 10 years' (p. 53). Matthew Martin, Alison Johnson, Hannah Bargawi & Cleo Rose-James, Long-Term Debt Sustainability for Africa, Background paper prepared for Commission for Africa, Debt Relief International, September 2004.

12. Diana Gregg, 'Debt relief for poorest nations gains although no deal reached on financing', International Business and Finance Daily, 5 October 2004.

13. Scheherazade Daneshkhu & Andrew Balls, 'G-7 nations find some common ground on debt relief for Africa', Financial Times, 18 April 2005.

14. Scheherazade Daneshkhu, Chris Giles & Friederike Tiesenhausen Cave, 'Britain presses G7 for debt write-off', Financial Times, 11 June 2005.

15. A few weeks later, the Russian government signalled its support for the G7 broad goals by … ed by the poorest … poor African nations', … rman resist… eshkhu, 'G7 still d… s Giles & Friederik… s', Financial Times, 1…

16. The 18 were Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. In total, their debts cancelled were approximately US$40 billion and the countries taken together would save roughly US$1 billion in debt service per year, on average, for the next ten years.

17. 'G8 Finance Ministers' Conclusions on Development', London, 10–11 June 2005. For the impact of the Japanese and German position, see Giles & Cave, 'Caution over G8'.

18. The G8 immediately made specific extra commitments to cover the full costs for the current three-year funding period of the IDA and AfDB. At the time of the next funding replenishments for these institutions, G7 countries could of course reduce their commitments. There was also nothing in the final deal to prevent donor countries themselves from meeting their pledges by reducing other forms of aid, as they have in fact done since the creation of the HIPC initiative in 1996. In advance of the June 2005 deal, US Treasury Secretary Snow had suggested that the costs of debt cancellation could be met by reduced aid ('Blair sets off on diplomatic tour to secure support for Africa aid plan', World Bank Press Review, 24 May 2005). The US contribution to the initiative by 2015 will be somewhere between US$1.28 billion and US$1.75 billion. Gordon Brown also acknowledged the question of whether G7 contributions would come from existing aid budgets or not was 'a matter for individual countries' (quoted in 'G8 finance ministers forgive $40 billion in debt for world's poorest nations', World Bank Press Review, 13 June 2005). He even acknowledged that Britain's initial payments would come from existing aid budgets (Giles & Cave, 'Caution over G8').

19. 'G8 Finance Ministers' Conclusions on Development', London, 10–11 June 2005.

20. Nancy Birdsall, Steve Radelet, Todd Moss & Owen Barder, 'The G-8 and Global Development: The Road to Gleneagles', http://www.cgdev.org/G8.cfm (accessed 15 June 2005).

21. Giles ... an countri... d Norway, pres... IMF debt cancella... ed that the financial ... rants that could be ... as the implementation of Poverty Growth Reduction Strategies. Steve Schifferes, 'G8 debt deal

under threat at the IMF', BBC News World Edition online, 14 July 2005; Alan Beattie, 'EU bloc call to toughen G8 debt relief terms' Financial Times, 14 July 2005.

22. Diana Gregg, 'Iraq will need two-thirds of its debt forgiven, World Bank president declares', International Business and Finance Daily, 30 October 2003.

23. See, for example, Michael Kremer & Seema Jayachandran, 'Make odious debt too risky to issue', Financial Times, 8 May 2003; 'Paying for Saddam's sins: should the new Iraq honour the financial obligations of the old regime?' The Economist, 17 May 2003; Joseph Stiglitz, 'Odious Rulers, Odious Debts', Atlantic Monthly Vol. 292, No. 4 (November 2003), pp. 39–45.

24. House Resolution 198.

25. Bayh amendment 1871 to Senate Bill 1689.

26. Congressional Records, US Senate, 16 October 2003, Page S12706, http://thomas.loc.gov/cgi-bin/query/C?r108jn9Vmj.

27. See for example Associated Press, 'Senate turns half of Iraq aid into loans', 17 October 2003, odiousdebts.org; Mark Tran, 'Congress set to back $87bn Iraq/Afghanistan aid', The Guardian, 17 October 2003.

28. National Advisory Council on International Monetary and Financial Policies, Special Report on the Indonesian Debt Rescheduling, 16 March 1971 (US Government Printing Office, 1971).

29. Letter from C. W. Hodges to J. H. Francis, 3 April 1970, OD39/173, Public Records Office (London).

30. At the time of the Indonesia debt settlement, other Western powers were also very nervous ... nesia settleme... rly generous debt reli... 3 April 1970, ... acceptance of th... completed in 1971 ... Record Office).

31. Quoted in Lisa Peryman, ‘Call for 100 percent debt cancellation at G8 summit’, Odious Debts Online, 11 June 2004.

32. Nancy Ognanovich, ‘G-8 backs modest debt relief steps’.

33. World Bank Press Review, 23 June 2004.

34. When putting forward its HIPC proposal, US officials continued to argue that there was no comparability between Iraqi and HIPC debts because the former were bilateral debts not owed to the multilateral financial institutions. See for example ‘Paris Club divided over Iraq debt forgiveness’, World Bank Press Review, 3 October 2004; ‘Poor countries debt relief “failing”’, World Bank Press Review, 13 September 2004; Paul Blustein, ‘Debt relief plan eludes IMF group; issue likely to be resolved next year’, Washington Post, 3 October 2004.

35. The Paris Club agreement provided for the immediate forgiveness of 30 per cent of debt. An additional 30 per cent was to be written off once an IMF reform programme was approved, and another 20 per cent was to be written off in 2008 after Iraq had carried out the programme. The remaining debt was to be repaid over a 23-year period with no principal or interest due for three years. The Paris Club reserved the right to suspend part of its debt reduction if Iraq's other major creditors did not match it.

36. Dennis Hoover, ‘What Would Moses Do? Debt Relief in the Jubilee Year’, Religion in the News, Vol. 4, No. 1 (Spring 2001), p. 1. See also Elizabeth Donnelly, ‘Proclaiming Jubilee: The Debt and Structural Adjustment Network’, in Sanjeev Khagram, James Riker & Kathryn Sikkink (eds), Restructuring World Politics: Transnational Social Movements, Networks and Norms (University of Minnesota Press, 2002), p. 174.

37. See for example Ann Pettifor, ‘The Economic Bondage of Debt – and the Birth of a New Movement’, New Left Review, No. 23 (1998), pp. 115–22.

38. Mich … ashington Post, 9 C … or example, Jeffrey S … uin, 2005), pp. 3 …

39. See, … 25 Septemb … ress’,

Journal of Pastoral Care, Vol. 55, No. 1 (2001), pp. 7–16; Hoover, ‘What Would Moses Do?’.

40. Allan Meltzer, ‘Why it is time to close down the IMF’, Financial Times, 16 June 1995.

41. International Financial Institutions Advisory Committee, Report of the International Financial Institutions Advisory Committee, submitted to the US Congress and US Department of Treasury, 8 March 2000.

42. Ibid., p. 49.

43. House Resolution 2482, Iraqi Freedom from Debt Act (June 2003).

44. See for example Jubilee USA Network, ‘2004 in Review’, p. 1.

45. Quoted in Emad Mekay, ‘US Congress mulls debt cancellation by IMF’, SUNS News Service, 7 June 2004.

46. Jubilee USA Network, ‘2004 in Review’, pp. 2–3.

47. Blustein, ‘US wants to cancel poorest nations’ debt’.

48. Jim Lobe, ‘Richest nations may drop the debt of 33 poorest’, SUNS News Service, 22 September 2004.

49. Jubilee USA Network, ‘2004 in Review’.

50. Diana Gregg, ‘Debt advocacy group pleased’, International Business and Finance Daily, 15 September 2004; Jim Lobe, ‘Richest nations may drop the debt of 33 poorest’, SUNS News Service, 22 September 2004.

51. Jubilee USA Network, ‘2004 in Review’.

52. Jim L … s Service, 2 February …

53. Em … s Service, 5 July … 3 Deal on Debt int …

54. See, … 4), pp. 289–91; Eric … ’, Third

World Quarterly, Vol. 26, No. 6 (2005), pp. 951–69.

55. Blustein, ‘US wants to cancel poorest nations’ debt’. It is also noteworthy that the IMF would have had to pay for its cancelled debts partially from the Poverty Reduction and Growth Facility, which the Meltzer Commission had recommended abolishing.

56. At the time of the June 2005 announcement, for example, Snow stated: ‘It is my hope that this reform will conclusively end the destabilising lend-and-forgive approach to development assistance in low-income countries’ (quoted in Alan Cowell, ‘Finance chiefs cancel debt of 18 nations’, New York Times, 12 June 2005). See also Blustein, ‘US wants to cancel poorest nations’ debt’.

57. Jim Saxton, ‘Multilateral debt of poor countries should be written off’, Joint Economic Committee, Congress of the US Press Release, 109–23, 7 June 2005.

58. The Meltzer Commissioners had argued the following: ‘The IMF's accounting system should be simplified and rationalised to improve transparency. The recent use of gold sales and repurchases as an accounting device for forgiving HIPC debt is an example of budgetary obfuscation which is substantively unrelated to the act of forgiving debt. Contrivances of this kind have no place in a multilateral lending agency dedicated to increasing transparency of member governments’ policies and operations.’ International Financial Institutions Advisory Committee, Report of the International, p. 47.

59. Joint Economic Committee, IMF Gold Sales in Perspective, Joint Economic Committee, Congress of the US, August 1999.

60. ‘IMF gold sale draws congressional scrutiny’, Joint Economic Committee Press Release, 7 February 2005; Emad Mekay, ‘Debt relief moves ahead but details are fuzzy’, SUNS News Service, 9 February 2005.

61. Jim S … omic
Committ …

62. ‘ … ding the IMF
itself, … cause they
could be … r own sales
accordin … Low-Income

Countries – Preliminary Considerations, 11 March 2005; Sony Kapoor, Paying for 100% Multilateral Debt Cancellation: Current Proposals Explained (Eurodad, January 2005).

63. See, for example, 'Finance chiefs agree more aid needed, haggle over numbers', World Bank Press Review, 18 April 2005; Chris Giles, Fiona Harvey & David White, 'Britain sets out tough negotiating stance on African debt relief and aid', Financial Times, 4 June 2005.

64. See, for example, 'Terrorism and Iraq have pushed development off the world's agenda: Wolfensohn', World Bank Press Review, 24 September 2004; Diana Gregg, 'Debt advocacy group pleased'.

65. See 'G8 finance ministers forgive $40 billion in debt for world's poorest nations', World Bank Press Review, 13 June 2005; Tony Allen-Mills, 'Wolfowitz the hawk turns African dove', The Times, 12 June 2005; 'Nations close to deal but differences remain', Financial Times, 11 June 2005.

66. George Melloan, 'IMF lending faces an uncertain future', Wall Street Journal, 14 June 2005.

67. See Njoki Njoroge Njehu & Soren Ambrose, 'Debt Talks Approach Climax While Wolfensohn Tends to Legacy', Economic Justice News, Vol. 8, No. 2 (2005), pp. 1, 10–13, and their 'Bush Administration may Bring Drama to IFIs', Economic Justice News, Vol. 8, No. 1 (2005), pp. 4, 12–15.

68. See also the analysis of Bush administration's policy towards the restructuring of Argentine debt in the 2001–5 period in Helleiner, 'The Strange Story'.

69. See, for example, Donnelly, 'Proclaiming Jubilee'; Carole Collins, Zie Gariyo & Tony Burdon, 'Jubilee 2000: Citizen Action Across the North–South Divide', in Michael
Edwards ... pp. 135–48.
For the r... highlights
the role ... , see
Thomas ... Club to
Enha... , 2004).

70. See, ... tured
Servitud ... –56.