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## FACT SHEET

# THE IMPLICATIONS OF DEBT IN THE DEVELOPING WORLD

**Debt in the developing world has serious political, economic and social consequences for both the country and its citizens. Debt can affect a nation's economic and social growth because countries who become burdened with debt can spend more than half of their export revenue on servicing debt. This results in budget cuts in other areas of public spending such as health and education.**

While some NGOs have called for debt cancellation, the multi-lateral institutions who hold the majority of the developing world's debt launched the Heavily Indebted Poor Countries' Initiative as an attempt to alleviate the debt of the world's most impoverished nations. Reaction to the initiative has been mixed.

### TWO VIEWS OF THE HIPC INITIATIVE

#### The IMF/World Bank viewpoint

*"Disciplined economic management leads to social development and benefits".*

Uganda, whose debt servicing amounted to 24% of government spending prior to 1996, is often used as an example of successful IMF policy, as Uganda rigorously applied the conditions attached to the IMF debt relief programme.

Uganda was able to meet the requirements of Structural Adjustment with economic and policy reform and therefore became eligible for debt relief of US \$650 million. This allowed for a 20% reduction in Uganda's total external debt. The IMF believes that this relief can then release resources for spending on essential services such as health and education.

The World Bank, via the International Development Association offers credits, which are repayable over 40 years and include a service charge. When the credit is finally repaid their value is only worth 20% of the original loan – in effect the loans amount to 80% grants.

The IMF advocate that this type of multi-lateral assistance will best help countries move forward and prevent spending abuses of additional resources, as has happened in the past. (eg. corrupt government practices, the buying of weaponry etc..).

#### Opposition Viewpoints

*"That the IMF/World Bank must recognise that the real issues associated with Third World debt are political and not economic and therefore the solution must be political reform".*

Opponents of the World Bank and IMF approaches believe that fundamental relationships between developed and developing nations need to be addressed. The economies of developing countries cannot continue to be organised to benefit the developed world. At present the nature of the global economy concentrates wealth in the hands of a minority of wealthy countries who dictate the nature and pace of change in the developing world. Most developed countries repay their debt at approximately 4% of their export earnings, yet HIPC are (via the IMF and World Bank initiatives) being asked to repay between 20-25% of their export earnings.<sup>1</sup>

Even Uganda, the star of the HIPC programme is now struggling to repay her debts due in part to increased borrowing and the dependence on Coffee, which has fallen in price, reducing foreign earnings for Uganda. (from "New World Bank Reports Confirm that the HIPC Initiative is Failing" by Romilly Greenhill, Jubilee Research. For further information on Uganda visit: [www.jubilee2000uk.org](http://www.jubilee2000uk.org) and view the 'Tracking HIPC' section.)

Economic restructuring has exacerbated income inequality in developing countries and fuelled social instability. For every \$1 received in aid grants in 2000 the developing world pays back \$13 in debt service. This resulted in a net loss of money for the developing world. World Bank figures show that \$382 billion left 165 developing countries in 2000 in

<sup>1</sup> refer to comparisons with a post WWI/WWII Germany [www.debtchannel.org/views/opinion/charlotte030501.shtml](http://www.debtchannel.org/views/opinion/charlotte030501.shtml)



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debt servicing.<sup>2</sup> Another criticism has been the definition of *debt sustainability* that the World Bank sets. This is often set at 150% of a country's export earnings, so that in order to receive any debt relief countries unsustainable debt needs to be above this level, which opponents say is both too high and merely an economic measure which does not take into account the needs of the citizens.

A major criticism has been the effects of policies such as privatisation of state productivity, increase in growth of export-only crops and a reduction in government spending that are introduced as part of an IMF/World Bank loan. Opponents claim that IMF programmes have led to increased unemployment, have failed to lower consumer costs, and because of reduce government spending, the needs of the people have not been met.

Headlines suggesting that the creditors have written off billions of dollars worth of debt must be critically examined. While some G7 states have cancelled HIPC's debt the *multi-lateral* creditors – in particular the World Bank and IMF – have refused to cancel more than half of their outstanding debts. (eg. In Zambia 58¢ of every dollar that Zambia pays in debt relief over the next 5 years will go to the IMF/World Bank).<sup>3</sup>

Opponents believe that the amount of debt relief provided is insufficient to free the country from unsustainable debt burden for the future. Relief initiatives do not take into account future changes such as an increase in oil prices or decline in export commodity prices. Debt servicing will still require payments that far exceed the amount HIPCs spend on education and health. An example of this is Guyana, which qualified for debt relief in 1999 following successful implementation of Structural Adjustment Programs implemented by the World Bank. It was predicted that Guyana's debt-to-exports ratio would drop from 151 percent to 115 percent, according to the World Bank. Guyana's Finance Minister, Bharrat Jagdeo, said, "Even after this assistance, we will be spending over 40 percent of our budgetary resources for debt servicing". Guyana's total debt is over \$1.41 billion. This amounts to \$2,280 per capita. Per capita debt service is \$150, compared to annual per capita income of \$800<sup>4</sup>. Recently there has been some discussion that trade policies of developed countries were partially responsible for damaging the HIPC debt relief programme. Vikram Nehru, the manager of the Highly Indebted Poor Countries (HIPC) arm of the World Bank, told BBC News Online:

*"A case can be made that trade policies which seek to protect domestic producers of commodities in the developed world end up hurting poor countries which are receiving debt relief through another programme,"*

source: [news.bbc.co.uk/1/hi/business/2645499.stm](http://news.bbc.co.uk/1/hi/business/2645499.stm)

The rigid nature of the restructuring programmes has meant that the IMF has not taken into account what happens when countries fail to achieve the goals set by the IMF and fall back into unsustainable debt practices.

- 2 World Bank, Global Development Finance 2002, UNDP, Global Human Development Report, 2000
- 3 [www.debtchannel.org/themes/topic/topic\\_276\\_1.shtml](http://www.debtchannel.org/themes/topic/topic_276_1.shtml)
- 4 [www.americas.org/item\\_10901](http://www.americas.org/item_10901)


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**The Issue of Debt cancellation**

What effect would debt cancellation have on reducing poverty in developing countries? There are many organisations that advocate debt cancellation, while many creditors believe that total cancellation is not the answer. Both those who support and those who oppose debt cancellation recognise that removing debt will not alleviate poverty because poverty is the result of a combination of factors.

Cancelling debt would mean that developing countries would not have to repay the loans or the interest accrued on these loans. It would allow money that is currently being spent on servicing debt to be used for development related programmes such as health and education.

The debts that various countries owe vary and can include multi-lateral and bi-lateral debt. Some bi-lateral creditors for example, the United Kingdom, have cancelled their debt but the main 'drop the debt' campaigns are directed towards the IMF/World Bank and those loans held by other G7 nations.

These creditors are concerned about safeguards being put in place. They want guarantees as to how the 'relief' would be spent, citing undemocratic developing country elites who could accept the relief without introducing reforms or checks as to how the money could be spent.

Other possibilities for debt relief include partial cancellation, restructuring, removing trade restrictions, and for future loans to be tagged towards specific projects.

**SOCIAL CONSEQUENCES OF DEBT**

Debt in the developing world not only creates problems for the debtor country with regards to social development, but can also have many negative social consequences for those in the developed world.

**SOME CONSEQUENCES**
**Developed World**
**Drugs**

They often provide one of the few sources of foreign exchange available to indebted countries and the importance of the resource to servicing debt in turn makes the country drug dependent. Most of the drugs produced in the developing world end up on the streets in the developed world.

**Unemployment**

Poor countries that are burdened with debt do not buy goods produced in the developed world. This has a direct effect on the number of manufacturing and agricultural jobs in the industrialised world.

**Refugees**

Developed countries are having to deal with the repercussions of people from developing countries who seek to work and live within their borders.

**Environmental destruction**

As the environment is damaged due to SAPs (see below) the damage is not confined within national borders and so the long-term effects are felt worldwide.



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### Developing World

#### Environment

Pressure to earn foreign exchange has contributed to the exploitation of the environment. Structural Adjustment Programmes (SAPs) have created ecologically harmful projects such as dams, agricultural plantations, and the harvesting of natural resources such as timber, minerals, cash crops etc. Deforestation is the most significant debt-induced environmental problem.

#### Conflict

Conflict is directly linked to, and exacerbates, poverty. As debt increases in indebted countries, society's respect for law and order breaks down and conflict often results.

#### Unemployment

Within HIPC unemployment is very high, as countries attempt to adopt SAPs it removes people from the land. Rural people become dependent on low wage rural labour, or migrate to the towns and cities in search of work. This places enormous strain on the services and facilities in those towns and cities.

#### Health

Spending on health has declined because debt servicing has been the priority for many countries in order to increase their credit rating. This has led to increases in infant mortality, maternal health concerns, and infectious diseases. Developing countries also face an exploding HIV/AIDS crisis, where preventative measures and treatments have declined. Approximately 90% of people with HIV live in developing countries. African children accounted for about 40% of infant deaths worldwide by the year 2000, with 40% of the population suffering from some degree of malnutrition. World Bank policy has supported charging for aspects of state health care, which has resulted in a decline in people accessing health services. When the World Bank mandated that Kenya impose charges of US\$2.15 for Sexually Transmitted Diseases clinic services, attendance fell 35 to 60%, with similar results seen throughout the developing world. In Ethiopia, where over 100,000 children die annually from easily preventable diseases, debt payments are four times more than public spending on health care.

#### Education

Like health, education has suffered as a result of cuts in spending. There are limited opportunities for education and training. Funds for public education are limited. For example in Tanzania, the amount of the national budget spent on debt servicing is four times the allotment for education.<sup>5</sup> Literacy and school enrolments among Least Developed Countries have declined throughout the 1990s. The gender gap within education is widening even though it has been recognised that educating girls is a positive step towards reducing poverty.

Of the nearly 1 billion illiterate adults in the world, two thirds are women. In developing countries, the female literacy rate as a percentage of the male literacy rate is significantly lower.

### **RELEVANT LINKS**

[www.jubilee2000uk.org](http://www.jubilee2000uk.org)

[www.debtchannel.org](http://www.debtchannel.org)

[news.bbc.co.uk](http://news.bbc.co.uk)

[www.americas.org](http://www.americas.org)