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SAPs LINK SHARPENS DEBT-RELIEF DEBATE

The Cologne Initiative, the 'historic' debt-relief plan for the world's poorest countries announced by the industrialised nations, is panned by social groups as a tool to keep participating countries tied to the policy dictates of the International Monetary Fund and to ensure that they continue to repay their debts to the international financial institutions. The Initiative would perpetuate the devastating impacts of structural adjustment programmes in poor countries.

By Karen Hansen-Kuhn & Steve Hellinger

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At its June meeting in Cologne, Germany, the Group of Eight (G8) industrialised nations announced a 'historic' plan that the heads of government claimed would cut in half the foreign debts of the world's poorest countries. It is clear, however, that this initiative, far from representing a moral imperative on the part of the world's most powerful countries, will be used as a tool to keep participating countries tied to the policy dictates of the International Monetary Fund (IMF) for the foreseeable future and to ensure that they continue to repay their debts to the international financial institutions.

The so-called 'Cologne Initiative' is actually an extension of the existing Heavily Indebted Poor Countries (HIPC) initiative, a programme administered by the Fund and the World Bank to reduce the debt of those countries to 'sustainable' levels. Under HIPC, six years of implementation of structural adjustment is required of countries that desire such levels of debt cancellation.

The Cologne Initiative was hailed by some for granting a reduction in the time-frame for debt relief to three years. However, according to Joe Hanlon, a researcher for the Jubilee 2000/UK campaign, part of an international coalition calling for debt cancellation, what is actually contained in the documents issued by the G7 (the G8 minus Russia) is quite a bit hazier and 'gives some cause for concern'. Hanlon also explains that nearly one-half of the US$207 billion in HIPC country debt is not now being serviced and is generally acknowledged as being unpayable. Thus, the new debt 'relief' deals only with that part of the debt that the IFIs never expected to be paid, while ensuring that the participating debtor nations are able to continue repaying their private and public creditors. Jubilee South, a coalition of Jubilee debt campaigns and social movements in Africa, Asia and Latin America, has condemned the latest action taken by the G8 countries in Cologne as '... a self-serving formula to keep the governments in the South from defaulting'.

One point that is crystal clear is that no country will receive any debt cancellation through this initiative if it does not fully adhere to structural adjustment requirements. In a recent communique by the IMF's Interim Committee, the Fund welcomed efforts to strengthen the HIPC initiative 'so as to enhance debt relief to countries in need in a way that strengthens incentives for the adoption of strong programs of adjustment ...'.

Structural adjustment programmes, designed to reorient economies to the advantage of foreign investors, typically through the wholesale privatisation of state-owned industries and services, the liberalisation of rules on trade and investment, a reduction in wages and social spending, a tight monetary policy and related measures, have generated widespread condemnation among affected citizens' groups around the world. It is generally acknowledged that adjustment programmes have been devastating for the poor and have increased income inequality and social instability. Just as importantly, they have wrecked the national productive capacity of many countries.

National chapters of SAPRIN, a multi-sectoral network comprising more than 1,500 civil-society organisations worldwide, have been convening popular forums and initiating participatory research on the impact of adjustment programmes in a variety of countries in Latin America, Africa, Asia and Central Europe. The findings are remarkably similar. Privatisation programmes, for example, have resulted in massive layoffs (and, most often, long-term unemployment) while failing to increase efficiency in those firms or to lower costs to consumers.

In El Salvador, for example, the privatisation of electricity distribution has resulted in increased rates, reduced access for low-income people and a notable decline in the quality of service. In Bangladesh, the privatisation of jute production -- a mainstay of the country's industrial sector -- was disastrous. Production declined by 50%, most factories were closed, and more than 39,000 workers were laid off. These findings, in addition to SAPRIN's harsh critiques of the impact of trade and financial liberalisation, as well as labour-market and fiscal reforms, have been echoed by other popular movements around the world.

The issue of attaching adjustment conditionality to debt-reduction plans has generated considerable controversy among Jubilee 2000 campaigns around the world. At its January meeting in Honduras, the Latin American and Caribbean Jubilee 2000 campaign declared that 'the debt is used to justify neoliberal policies of structural adjustment as a way of perpetuating dependence'.

Similarly, the Philippine-Asia Campaign Against the Debt called for '... the nullification of structural adjustment loans tied to the "rescue packages"'. Participants in the Southern African Jubilee Debt Summit held in March demanded '... the unconditional, immediate and total cancellation of the debt, termination of conditions for further economic adjustment and the scrapping of the HIPC initiative'.

Jubilee South has called the Cologne initiative a 'cruel hoax'. This transcontinental coalition charges that the 'expanded HIPC', as it terms it, 'means increased misery and debt for the peoples of the South. HIPC is fundamentally flawed because it is linked to Structural Adjustment Programs. These programs have been shown to have a devastating human impact.'

Furthermore, The Development GAP's research affirms what many in the South have long known: that adjustment, far from bringing debt to manageable levels, has actually increased debt burdens. A D'GAP study of 71 countries implementing adjustment programmes found a positive statistical relationship between the number of years that countries implement adjustment programmes and increases in their debt levels.

The United States government has been at the forefront in promoting debt cancellation programmes that condition debt reduction for the poorest countries on the adoption of additional adjustment programmes. The Clinton Administration has supported the G8 proposals to allow for interim debt relief after three years of adjustment rather than six, but it has shown no interest in relaxing the requirement that countries implement those programmes, despite the damning evidence of the negative impact of adjustment programmes on the poor and on national and local economies.

Legislation currently under consideration in the US Congress is consistent with the Administration's approach. The Debt Relief for Poverty Reduction Act of 1999, drafted with input from some US NGOs, has caused considerable controversy within the NGO community. Some groups have criticised key features of the bill, particularly the adjustment conditionality, as well as the willingness of other NGOs to support debt reduction with such requirements.

The Jubilee 2000/USA campaign, which works on a number of initiatives related to debt cancellation, has 'conditionally' supported the bill, commonly called the 'Leach bill' after the name of its principal sponsor in Congress. In the end, however, what those conditions will be remains vague. While the US campaign has, following considerable internal and external consultation, called for a number of changes in Leach's legislative proposal, including the delinking of debt cancellation from the required implementation of structural adjustment, it is unclear whether it would still support the bill if, as is likely, these changes are not made.

Meanwhile, Rep. Cynthia McKinney plans to introduce another bill that would prohibit Congressional funding of the IMF until it unconditionally cancels debts owed it by the poorest countries. While the chances of the bill's passage remain unclear, it, along with a number of other legislative proposals, has served to highlight the controversial link that has been made between debt cancellation and structural adjustment.

Even more worrying to opponents of adjustment and of an enhanced role for the IMF is the proposal by the US Treasury and the Fund to finance much of the debt reduction through the sale of IMF gold reserves. This proposal, in addition to putting downward pressure on gold prices (a key commodity in several debtor countries), would generate increased revenues not just to cover HIPC debt payments but also to expand the Fund's Enhanced Structural Adjustment Facility (ESAF). If the gold sale were to occur within the framework of this plan, it would have the effect of making ESAF self-financing, thereby eliminating forever the need for IMF Board members to return to their sceptical legislatures to seek funding.

Approval of the gold sale by the US Congress is, however, far from certain. Senate Foreign Relations Chair Jesse Helms has publicly opposed the sale. 'We are unalterably persuaded,' he and Sen. Chuck Hagel (Chair of the Subcommittee on Economic Policy) wrote US Treasury Secretary Larry Summers, 'that selling IMF gold reserves would adversely affect the very countries the Administration intends to assist and further damage the US domestic gold industry'.

In a subsequent letter to President Clinton, 26 Members of the Congressional Black Caucus noted that the negative effect the announcement of the gold sales proposal has already had on the South African economy. 'When this proposal comes before Congress for consideration, we will oppose it vigorously,' the legislators wrote the President. 'Make no mistake, we believe strongly in debt relief, and we intend to pursue every avenue to provide as much real relief as quickly as possible. However, selling gold reserves is the worst possible method of financing debt relief.'

Likewise, even those US NGOs that have supported the debt reduction that would be provided by the Leach bill are so far unwilling to support gold sales that would remove ESAF from Congressional scrutiny. The IMF is still counting, however, on those NGOs' Congressional allies. 'The best hope for the gold sales proposal,' the Fund recently acknowledged, 'would appear to be those lawmakers. . . who favor debt relief.'

Secretary Summers, meeting in June with members of the Jubilee 2000/USA campaign and other NGOs in an effort to secure NGO support for Treasury's debt and gold-sale proposals, expressed a desire to make ESAF more poverty-oriented. History has shown, however, that the US government has never been willing to make fundamental changes in poverty-inducing structural adjustment policies, but only to create woefully inadequate social programmes to ameliorate their most visible effects.

Whether or not the gold sales, the Leach bill or other elements of official debt-reduction plans are approved by the US Congress later this year, it seems virtually certain that a vigorous debate on both the disastrous impact of adjustment programmes and the pressing need for lasting solutions to the debt problem will ensue over the next few months. - Third World Network Features

About the writers: Karen Hansen-Kuhn and Steve Hellinger are, respectively, Latin America Program Coordinator and President of The Development Group for Alternative Policies (The Development GAP) in Washington, DC.

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