

DEBT

DECEMBER 09

Millennium Development Goal 8: To develop a global partnership for development.

Target 15: To deal comprehensively with the debt problems of developing countries through national and international measures and make debt sustainable in the long term.

Progress: Since MDG Target 15 is not explicitly quantified, it is difficult to measure progress towards it. While challenges remain for some countries, international initiatives have succeeded in reducing substantially the debt burden of many heavily indebted poor countries.

Are we on track to meet the target?

Enhance HIPC Initiative: Status as of November 2009			
Post Completion Point (26)		Decision Point (9)	Pre-Decision Point (5)
Benin	Madagascar	Afghanistan	Comoros
Bolivia	Mauritania	Chad	Eritrea
Burkina Faso	Mozambique	Congo, DR	Krygz Republic
Burundi	Nicaragua	Congo, Rep	Somalia
Cameroon	Niger	Cote d'Ivoire	Sudan
Central African Rep	Rwanda	Guinea	
Ethiopia	Sao Tome & Principe	Guinea Bissau	
Gambia, The	Senegal	Liberia	
Guyana	Sierra Leone	Togo	
Haiti	Tanzania		
Honduras	Uganda		

Progress

- Over \$117 billion of unpayable debt has been written off through the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).
- 35 countries are currently receiving debt relief, with 5 still able to qualify when they meet the necessary conditions
- Annual spending on anti-poverty programs increased from approximately \$6 billion in 1999 to almost \$27 billion in 2008.

Key messages

- Debt relief provides long term, additional resources for countries to spend on health, education and infrastructure as set out in national Poverty Reduction Strategies.
- The UK is at the forefront of debt cancellation for poor countries and international poverty reduction.
- UK policy is to promote responsible and sustainable lending to poor countries to ensure that lending does not contribute to the build-up of new debts.
- We are carefully monitoring the effect of the global economic crisis on the debt levels of poor countries.

Facts and figures

The HIPC Initiative

- 26 countries have now reached 'Completion Point' of the HIPC Initiative, the stage at which countries receive an irrevocable reduction in their debts (including 100% cancellation from most bilateral creditors, including the UK).
- 9 countries have reached 'Decision Point' of the HIPC Initiative, the point at which they receive interim relief (i.e. making no payments on their debts)
- 5 more countries remain eligible for debt relief under the HIPC Initiative but their progress has been hampered by conflict, poor economic management or serious governance concerns.
- Poverty-reducing expenditures in countries that receive HIPC assistance have risen from \$5,952 billion in 1999 to \$26,697 billion in 2008.

The Multilateral Debt Relief Initiative (MDRI)

- 26 HIPCs have now received 100% debt cancellation at the World Bank, IMF and African Development Bank.
- Up to 14 others will also receive 100% debt cancellation when they reach HIPC Completion Point.
- Donors will pay the World Bank and the African Development Bank the full cost of the debt they cancel. These banks will share these extra resources amongst the poorest countries for poverty elimination programmes.

The UK Multilateral Debt Relief Initiative (UK MDRI)

- The UK Multilateral Debt Relief Initiative is designed to help poor countries that do not yet qualify for the HIPC Initiative.
- To qualify for the UK MDRI, countries must demonstrate good financial management.
- 8 countries (Cape Verde, Lesotho, Moldova, Mongolia, Nepal, Samoa, Vanuatu and Vietnam) currently receive assistance under the UK MDRI. We pay 10% of their annual debt service to the World Bank and, for African countries, the African Development Bank.
- To date over £68 million has been provided under this initiative.

Vulture Funds

Vulture funds exploit the debts of poor countries to commercial creditors. Vulture funds buy debt at a discount from commercial creditors, generally when the debtor nation is in economic distress. Many of these debts are very old and repayments may have ceased a long time ago, so there can be substantial arrears and penalties. The vulture funds wait for the situation to improve (e.g. after debt relief) and then pursue a full contractual settlement of the full value of the claims through aggressive litigation.

HM Treasury recently held a consultation on possible legislation that would limit the extent to which private creditors could recover debt under UK law. The Government is carefully considering the issues raised by stakeholders during the consultation.

Debt Relief Works

Burundi is using the \$89 million HIPC funding in 2008 and 2009 to continue to support free primary education, as well as free health services for children under 5 and women in childbirth.

Over 1000 additional classrooms have been built and government spending on the free health care policy has increased by 600% (six hundred percent) between 2007 and 2009.

Challenges and Solutions

- The impact of the economic crisis is a stark reminder that gains made in moving towards the Millennium Development Goals can be fragile. We are carefully monitoring the effect of the economic crisis on the debt levels of poor countries. Countries in strong debt positions remain robust to the crisis. The global nature of the crisis requires a strong multilateral response. We are working closely with International Financial Institutions and partner countries to ensure the action is targeted and timely.
- It is vital that the savings from debt relief are used well for poverty reduction. It is also important that countries have the resources they need to achieve the MDGs without getting back into unsustainable debt. The primary duty for responsible borrowing rests with the borrowing country itself and, to help, the UK is providing support to assist countries to develop their debt management capacity. We also need to ensure that countries and creditors can make informed decisions on appropriate lending. For example, if a country might struggle to repay debts, new financing will be given as grants instead. We are also working with partners to ensure that new loans taken on by countries are affordable, appropriate and will contribute to development.

What the UK government is doing to help

- The UK exceeds its obligations under HIPC, cancelling 100% of debts for qualifying countries.
- DFID has cancelled nearly all its old aid loans and debts of qualifying middle-income Commonwealth countries.
- The UK plays an active part in the Paris Club (a group of 19 official government creditors) and offers generous debt relief as part of deals agreed by the Club. The Paris Club offers debt resolutions for any country. The largest ever debt deal was agreed in 2006 by the Paris Club for Nigeria (a non-HIPC). In total, the UK wrote off £2.853 billion.
- In order to reduce the risk of debts falling into the hands of vulture funds, we are working with the World Bank to help poor countries buy back their commercial debts at a deep discount through the Debt Reduction Facility (DRF). More than \$10 billion of debts have already been cancelled in this way. We have committed up to £10 billion for future operations of the DRF.
- The UK has committed £5 million to the African Legal Support Facility in order to increase help to poor countries to tackle vulture funds.
- The UK is at the forefront of international initiatives on responsible lending and borrowing, aimed to ensure that poor countries do not accumulate unsustainable debts in the future. There is an important balance to be struck between a country's need for more finance to meet the Millennium Development Goals (MDGs) and debt sustainability.
- In January 2008, the UK helped secure agreement at the Organisation for Economic Co-operation and Development (OECD)

Mozambique used its debt service savings to vaccinate 1 million more children against tetanus, whooping cough and diphtheria, as well as build and electrify schools.

Ghana continues to receive debt relief under the Heavily Indebted Poor Countries Initiative (HIPC)- \$160 million in 2008- and is benefiting from the Multilateral Debt Relief Initiative (MDRI) in the order of \$4 billion over the next 40 years from 2005.

Vietnam Debt Relief under the UK MDRI has been provided to the Government of Vietnam since 2006. Over \$25 million has been granted to date. Funds have been spent on helping people recover from the disastrous consequences of severe flooding. The government mobilised resources to assist affected communities in dealing with the consequences, ranging from housing reconstruction and repairing public property to social relief activities.

Nepal Since 2007 the country has received over \$16 million from the UK MDRI initiative. These funds have been used to benefit the people of Nepal through peace processes and more recently through rural electrification, which plays a key role in tackling poverty.

to a set of principles and guidelines to promote sustainable lending practices to low-income countries. These oblige Export Credit Agencies to try to ensure that lending decisions do not contribute to future debt distress.

- The UK has been instrumental in securing an additional \$50 billion at the London Summit which is being made available for Low Income Countries (LICs) to mitigate the effects of the economic downturn.

Impacts and Results

- In countries receiving debt relief, debt service has been reduced and annual spending on anti-poverty programs increased from US\$6 billion to US\$27 billion since 1999.
- Debt relief under the HIPC and MDRI is expected to reduce the debt stocks of the 35 HIPCs that have reached the decision point by about 80%.
- In August 2006 there was an irrevocable cancellation of \$3.19 billion of **Malawi's debts**, which wiped out more than three-quarters of Malawi's total debts. Between 2006 and 2025, Malawi is expected to save roughly \$110 million in debt service payments. Prior to receiving debt relief, Malawi was creaking under \$3 billion of debt, with a quarter of the national budget going towards foreign debt repayment. Today, that money is being spent on essentials like health, education and agriculture. As a result, many of Malawi's poorest people are leading healthier and more productive lives.
- **Mozambique** has more than tripled its poverty reducing expenditure from \$792 million to over \$2 billion, partly as a result of international debt relief. This has contributed to a large increase in school enrolment rates: from 64% in 2003 to close to 100%. This means in an increase in numbers of children in primary education from 3,023,369 to 4,821,625 (an increase of nearly 2 million children attending schools). Improvements have also been made for women: since 2003, 120,000 more women per year are able to give birth in a hospital or clinic. In addition, infant mortality decreased from 147/1000 live births (1997) to 100/1000 (2008).
- Mozambique also used its debt service savings to vaccinate 1 million more children against tetanus, whooping cough and diphtheria, as well as build and electrify schools. In addition, Mozambique has invested in the fight against HIV/AIDS and used debt savings to open 50 new testing and counselling offices by 2007/08.

Sources

Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) Status of Implementation Reports (September 2008 and September 2009). These and more reports can be found on <http://www.imf.org/external/np/exr/facts/hipc.htm>

Country-specific information has been obtained through consultation with DFID Country Offices

[View the Paris Club Annual Report \(2008\)](#)

DFID Country Offices

Useful websites:

http://www.hm-treasury.gov.uk/debt_relief.htm