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Waiving and drowning? Debt and the millennium declaration development goals

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Discussion Paper No. 2001/111

Waiving *and* Drowning? Debt and the Millennium Declaration Development Goals

Stephen Browne*

October 2001

Abstract

This paper relates the challenge of debt and the opportunities of debt reduction to the task of achieving the Millennium Declaration Development Goals, major new benchmarks for progress in development and reduction in poverty, inspired by a series of UN Conferences of the 1990s. It illustrates why questions of debt are important in terms of determining the capacity—or otherwise—of the international community to realize the MDGs. In particular, the paper uses primary education in the HIPC countries to illustrate these concerns. The paper also contains conclusions and recommendations about future debt relief efforts

Keywords: debt, education, development goals, Africa

JEL classification: O19, F34, O55

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1 Introduction

This paper relates the challenge of debt and the opportunities of debt reduction to the massive task of achieving the so-called Millennium Declaration Development Goals, major new benchmarks for progress in development and reduction in poverty, inspired by a series of UN Conferences of the 1990s. It illustrates why questions of debt are so important in terms of determining the capacity—or otherwise—of the international community to realize the MDGs. In particular, it uses primary education in the HIPC countries to illustrate these concerns.

But first, where does the UN—and UNDP in particular—stand on the issue of the heavily indebted poor countries? The answer is somewhere between orthodoxy and apostasy: to the left of the international financial community and to the right of the more vocal civil society organizations. As a human development organization, the UN encourages programme countries to look beyond the shorter horizon of banking strictures, to the longer term: less preoccupied by financial stability and more concerned with building and sustaining gains in the human condition. Also, being on the ground in nearly every country of the South, the UN is conscious of and living beside the economic and political realities, which preclude the kinds of rapid societal change prescribed by radical idealism.

A renewed preoccupation with the longer term, however, is driving the UN towards a more radical agenda. A major reason is the commitment to the most important global poverty reduction statement ever endorsed—by 189 world leaders in September last year at the historic Millennium Assembly.[1]

There has been a decade of major conferences (see Box 1), all ending with declarations of intent with respect to different facets of human development. The mother of summits brought to bear the strongest mandate ever on a statement of intent to achieve significant human development progress by 2015. It outlined some of the key goals to measure progress—the Millennium Declaration Development Goals (see Box 2).

Box 1
From IDGs to MDGs

- UN global conferences of the 1990s:
  - Jomtien 1990 — Education
  - New York 1990 — Children
  - Rio 1992 — Environment
  - Vienna 1993 — Human rights
  - Cairo 1994 — Population
  - Copenhagen 1995 — Poverty
  - Beijing 1995 — Women
  - Rome 1996 — Food
- UN Millennium Summit 2000
- Financing for Development Conference 2002

1 United Nations, Millennium Declaration, September 2000 (www.un.org).

Box 2
What are the MDGs?

Between 1990 and 2015*:*

- INCOME POVERTY: Halve the proportion of the world's people living on less than $1/day
- HUNGER: Halve the proportion of those suffering from hunger
- SAFE WATER: Halve the proportion without access to safe drinking water
- GENDER EQUALITY: Equal access for girls and boys to all levels of education
- EDUCATION: Universal primary education
- CHILD MORTALITY: Halve under-5 child mortality
- MATERNAL MORTALITY: Reduce maternal mortality by three-quarters
- HIV/AIDS: Begin to reduce the incidence of HIV/AIDS

The Millennium Declaration and the MDGs, although unprecedented in the support they command and in the language they contain, require a blueprint for action to be drawn up and approved. This is expected to happen in September 2001, when the Millennium Declaration 'roadmap' goes before the General Assembly for approval.

This plan of action confronts us with the realities of taking the measure of the efforts now needed to meet the Millennium Declaration Goals and marshalling the resources to do so.

2 Taking the measure

The scale of the task is daunting. UN Country Teams in every country are now examining the progress that has been made since 1990 towards the achievement of the MDGs and the road still to travel. The first report on Tanzania came out in February 2001 and reveals that this generously aided country will, on present trends, fall short of every goal except one (gender equality in primary education).[2] UNDP's Human Development Report 2001, published in July 2001, determines that a majority of countries are not on track towards meeting a majority of the eight primary MDGs (see Box 3).[3]

This assessment prompts sober reflection. Is the new decade going to see more hand-sitting and hand-wringing by the international community? Can we anticipate a gloomy Millennium-plus-five conference registering a continuation of minimal progress on the goals ... and even a regression in the AIDS-afflicted countries?

The answer is undoubtedly in the affirmative, unless the world—meaning the collectivity of united nations—adopts a more radical agenda to bring about change.

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2 UN Development Group (2001), 'Tanzania Country Report on IDT/MDG Progress', New York, February. The next reports to be produced are on Cameroon, Viet Nam and Nepal.

3 UNDP (2001),'Making New Technologies Work for Human Development'. Oxford.

Box 3
What has been the progress so far?

By now.....

- **Income poverty: to halve the proportion of the world's people living on less than $1/day**

  The proportion has fallen from 29 per cent to 24 per cent of the world's population live in countries which are on track. But little decline in numbers overall.
  70 countries are off track or slipping further back.

- **Hunger: to halve the proportion of those suffering from hunger**

  The numbers of the under-nourished have fallen by 40 million, but still 826 million remain.
  43 countries are off track or slipping further back

- **Safe water: to halve the proportion without access to safe drinking water**

  80 per cent have access to safe water, still leaving 1 billion without.
  83 countries are off track or slipping further back.

- **Gender equality: equal access for girls and boys to all levels of education**

  Female enrolment ratio is 89 per cent at the primary level.
  21 countries (where it is less than two-thirds) are off track or slipping further back.

- **Education: to achieve universal primary education**

  70 countries have primary net enrolment rates of 80+ per cent, but still 113 million children do not attend.
  26 countries are off track or slipping further back.

- **Child mortality: to halve under-5 child mortality**

  Rate has been reduced from 93 to 80 per 1,000.
  62 countries are off track or slipping further back.

- **Maternal mortality Reduce by 3/4 maternal mortality**

  In 32 countries, the ratio is less than 20 per 100,000 live births, but in 21 it is still over 500.
  83 countries are off track or slipping further back.

- **HIV/AIDS begin to reduce HIV/AIDS incidence**

  In very few countries (Uganda, Thailand ....) the incidence is falling, but 36 million people are living with HIV/AIDS.
  In 28 countries, adult prevalence rates are over 4 per cent

Source: UNDP, Human Development Report 2001

3 Marshalling the resources

Somewhat fortuitously, there is a new opportunity to do so by helping to marshal the resources to fight poverty through the financing for development process. As the recent 'Zedillo' report prepared for next year's conference has remarked, the Millennium Development Goals came with no price tag:

> The United Nations Millennium Declaration acknowledged the hitherto neglected task of mobilizing the financial resources needed to achieve the goals, and looked to the International Conference on Financing for

> Development ... as a crucial event in agreeing to a strategy for that purpose.[4]

The FFD conference will be a unique event. For one thing, financing questions are being discussed under UN auspices. For another, the conference addresses the whole gamut of development resources (Box 4).

Box 4
Agenda of the Financing for Development Conference
March 2002

- Domestic resource mobilization
- Private capital and FDI
- Debt
- Trade
- Aid
- Global public goods
- 'Systemic' issues

Resources, of course, are not the whole answer to meeting the goals. As the first dozen of the UN country reports on the MDGs are emphasizing, domestic policies and capacity are also central to the task.

But strong political will and optimal policies will not be enough, as long as the poorest developing countries are impeded by an absence of adequate financial resources and, still more seriously, rising financial penalties.

As the Financing for Development Conference is also stressing, first priority in resource mobilization is in the domestic effort. But reducing external indebtedness has critical—not to say pivotal—importance, for several reasons:

i) It is the resource flow which can be easily augmented by rich countries, since they have the means and the mechanisms at hand to do it;

ii) The scale of indebtedness in many poor countries puts a cramp on policy choices and is a serious inhibition to investment both domestic and foreign; debt reduction, therefore, will help to enhance the climate for more private flows; and

iii) Debt reduction has an immediate impact on central public resources, those specifically needed to augment spending on education, health and other targeted poverty related programmes.

It is this third relationship that this paper examines a little further.

The arrival of the HIPC in 1996 and its enhanced version in 1999 were greeted with belated relief and with high expectation. *Belated* because of the more than ten years that had elapsed since a serious and effective solution had been instigated for the middle-

4 Zedillo Report (2001),'Report of the High Level Panel on Financing for Development', 28 June.

income debtors. And *high expectation* because it had become apparent that growing insolvency could only be tackled through reductions in debt to the multilateral banks. By the end of the 1990s, multilateral debt, primarily World Bank and IMF, accounted for more than 50 per cent of the outstanding external debt in over half of the designated HIPC countries. HIPC seemed to be the start of the solution, because it addressed the multilateral debt problem—denied by the Bretton Woods Institutions themselves until 1996. Even then, it was not the multilateral development community, Bretton Woods and UN included, which accelerated progress, but vocal international NGOs, which succeeded in goading the rich country governments into more action.

The most powerful and convincing arguments about accelerating debt reduction link the cost of loans to the costs of social spending. In the past, the Sub-Saharan African countries following IMF programmes have often cut spending on priority social sectors such as education spending. The trend was ominous: building up debt and reducing poverty-related spending.

The Sub-Saharan Africa region as a whole has been allocating an average of US$ 12 billion per year to debt servicing, twice their collective spending on basic education. In these circumstances, there is little prospect of finding the resources to meet the key Millennium Development Goals.

The HIPC-PRSP rationale is to help channel resources made available from irrevocable debt forgiveness into poverty-alleviating ends. These resources are badly needed to increase public spending to meet the MDGs. But how much is needed and to what extent can debt forgiveness make the crucial difference?

This may be illustrated with respect to the education sector, using some recent research undertaken by UNICEF.[5] For the MDG on primary education, the net primary enrolment rate (PER) is used as the key indicator. Given the high rates of truancy in many countries, the PER is not as good as using actual attendance rates, or numbers of children actually completing primary education, but it is the most widely available indicator. For individual countries, the unit annual cost of primary education, which can be derived from total recurrent spending divided by the numbers enrolled, is then estimated. The additional annual average cost of universal primary education through 100 per cent enrolment by 2015 is then calculated, based on (i) projections of the numbers of those of primary school age and (ii) a gradual yearly increase in the enrolment ratio.

These figures do not include the capital costs of primary education, nor do they factor in needed quality improvements. However, they do give a reasonable indication of the additional effort, in recurrent financial terms, required to meet a critical MDG.

The numbers are presented in the table for 20 of the HIPC countries, which have by this date reached decision point and become eligible for debt relief. The annual additional costs of universal primary education are compared with the pre- and post-HIPC debt service obligations.

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5 Enrique Delamonica *et al.* (2001), 'Education for All Is Affordable: A Minimum Cost Global Estimate'. UNICEF Staff Working Paper, January.

Table
Net primary enrolment rates for selected countries

	Net primary enrolment ratio, 1997-99 (%)	Unit cost (US$)	Average annual additional cost (US$ million)	Average annual debt servicing	
				Pre-HIPC 1998 (US$ million)	Post-HIPC 2001 (US$ million)
Benin	43	42	20	58	46
Burkina Faso	33	50	58	42	30
Cameroon	71	81	69	514	226
Gambia	47	41	4	26	16
Guinea	33	56	33	157	78
Guinea-Bissau	45	22	2	8	6
Madagascar	59	15	15	122	64
Malawi	83	17	9	83	59
Mali	41	41	38	81	64
Mauritania	54	46	8	109	80
Mozambique	50	51	66	96	48
Niger	26	55	61	61	49
Rwanda	61	40	18	19	16
Senegal	45	92	65	306	159
Tanzania	65	26	52	238	142
Uganda	64	13	24	150	51
Zambia	74	13	6	187	158
Bolivia	95	101	17	410	185
Honduras	86	76	13	446	134
Nicaragua	72	39	9	194	117

Sources: UNICEF, Oxfam, and the World Bank.

The findings include the following:

i) For several countries with low enrolment ratios (Burkina Faso, Madagascar, Mozambique, Tanzania, Uganda) the additional annual cost of reaching universal primary education is greater than the actual unit annual costs of primary education;

ii) The ‘savings’ from debt relief, when comparing 1998 and 2001 debt service payments, range from a modest US$ 2 and US$ 3 million per annum (Guinea-Bissau and Rwanda) to US$ 288 million (Cameroon) and US$ 312 million (Honduras). At the lower ends of the range, these ‘savings’ would not be sufficient to cover the additional costs of universal primary education. At the higher levels, they would much more than cover them;

iii) Even after HIPC relief, however, many countries will still be paying considerably more in debt servicing than on primary education spending—both current and augmented spending.

Thus, while debt relief obtained through the HIPC process could indeed make significant resources available and assist the poorest countries to meet their higher resource needs for primary education, the burden will continue to be high in many cases.

A question revolves around sustainability. To make a significant difference, debt obligations need to decline and stay low. The debt stock of the HIPC countries needs to be steadily diminished and new funding should be provided in the form of grants rather

than loans. What are the projections? The answer is not particularly promising. This can be illustrated in the case of two countries, Uganda and Mozambique.

Figure 1
Uganda: Social spending and debt service

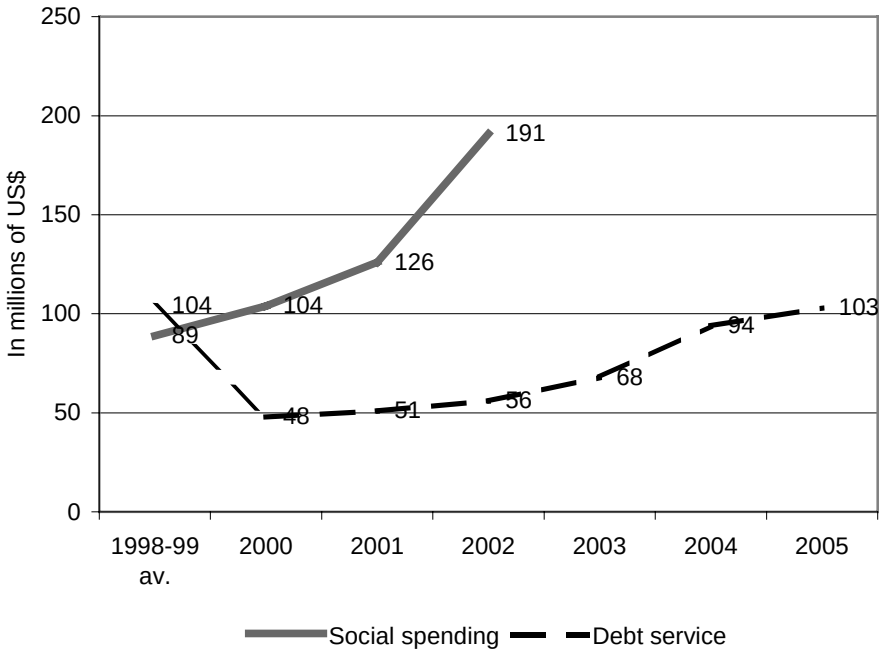
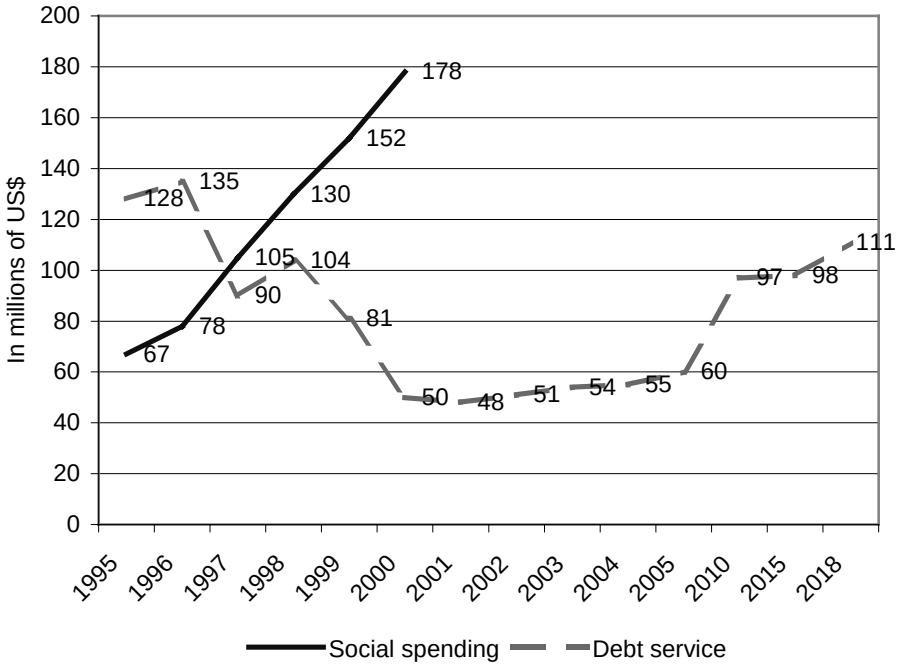


Figure 2
Mozambique: Social spending and debt service



For Uganda the debt service payments have fallen significantly from their levels a few years ago, permitting a rise in expenditure on social programmes, at least until next year. But from 2002, the debt service payments are expected to start rising again steadily.

There is a similar pattern for Mozambique. Significant increases in social spending facilitated by HIPC, but an ominous projected rise in debt service payments after next year and continuing for 15 years.

An examination of decision point documents reveals that a majority of the HIPC countries which have begun to benefit from debt relief will be paying more in service payments in 2015 than they were before the HIPC process began. These projections make the assumptions of debt sustainability, on which the HIPC is based, rather questionable.

4 Conclusions

I. Given other resource constraints, debt forgiveness is virtually a *sine qua non* for meeting—at least partially—the financing needs for the MDGs of the poorest countries. It is relief that is potentially available in the short term and which can be specifically channelled into education and other social spending needs.

II. HIPC2 is the most generous mechanism on offer, but (i) it comes with stringent conditionalities via the PRSP process, (ii) it does not extend to enough poor countries, and (iii) it still only provides temporary relief if it is being used to presage further major borrowing from the international financial institutions.

5 Recommendations

I. *Human development approach to debt.* Re-examine the whole rationale for debt forgiveness. Rather than the first claim on resources, debt servicing should be last. Base eligibility, not on the current ratios of debt sustainability, but on priority spending criteria. UNDP, Eurodad, CAFOD[6] and others have called for a human development approach, whereby resources currently available to poor country governments should first be used for meeting the needs of poverty reduction: education, health, clean water and so on. Government revenues that remain are then used for spending on items judged less essential from the human development perspective, including external debt servicing, on which a cap of 10 or 20 per cent has been recommended. In other words, the affordability of debt repayment—not just today, but for years into the future—should be calculated for each country, and these payments used as the basis for a comprehensive restructuring of outstanding debt.

6 UNDP (1999), 'Debt and Sustainable Human Development' (May); Eurodad (2001), 'A Human Development Approach to Debt Sustainability Analysis' (September); Henry Northover (2001), 'A Human Development Approach to Debt Sustainability Analysis' (April).

II. *Widen and deepen eligibility.* Extend these criteria beyond the 41 HIPC countries to all least developed countries immediately, and to other low- and middle-income countries which may be classified as having unsustainable debt in human development, rather than financial stability, terms. Where, as in Rwanda, the debt was substantially incurred by a regime associated with genocide on a massive scale, the legitimacy of such debt should be questioned and debt cancellation fast-tracked. Several countries in the HIPC category are conflict-prone and not engaged in PRSP preparation. Their case for debt forgiveness should nevertheless be critically examined, so that they are not seriously disadvantaged once the phase of post-conflict reconstruction gets under way.

    Serious attention also needs to be given to a very important category of countries which are not HIPC or least developed, but which are highly indebted, and whose sheer size makes them statistically predominant. India, Indonesia, Nigeria and Pakistan have a combined population equivalent to one quarter of the world, harbour more than half the world's income poor and together have an outstanding debt of US$ 300 billion.

III. *More funding.* Find additional finance for debt forgiveness. There are a number of ways in which this could be done. In the case of the IMF, it has been estimated that debt for the HIPC countries could be written off entirely from within anticipated income. There are also proposals to sell gold stocks. In the case of the World Bank, the additional cost of 100 per cent cancellation for the HIPC countries that have 'graduated' first is estimated at US$ 215 million per year for the next five years, a sum which could also be met gradually from income. Official bilateral debt to the poorest countries should be cancelled immediately, without counting cancelled debt as ODA.

IV. *More grants rather than loans.* Finally, the appropriateness of new loans for the indebted countries should be examined in the light of the projections of new debt servicing obligations.