a case for **debt relief**

a report by **Jubilee Australia**

A Case for **Debt Relief**

A Research Paper by Jubilee Australia

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introduction

The purpose of this report is, as the title suggests, to make a case for debt relief. It is now almost a decade that the campaign for debt cancellation has been in the public eye in western countries. The 2005 G8 debt deal (now formalised as the Multilateral Debt Relief Initiative, or MDRI) has proved to be a great step forward in addressing the issue of debt in the developing world. As a result, some 290 million people will be free of the burden of multilateral debt[1]. However, as it stands, the G8/MDRI deal only affects one in ten people in developing countries. Many of the others need debt relief urgently too, as this paper will show.

This paper will not look deeply into the ethical questions of debt, such as how it was incurred or the geopolitical and financial realities that led to the problem, although these questions will be touched on. Such issues are canvassed elsewhere.[2] Nor will this paper look at the conditions attached to debt relief, an important and still-controversial issue that requires its own separate consideration.

This paper instead takes a human development approach to debt relief by concerning itself with the question of whether debt relief has aided development and poverty reduction when it has been applied and whether in can do so effectively in a greater number of places.

The key questions are whether debt relief has been effective and, if it has, how it could now be expanded to include more countries. These questions are considered in the following sections:

Part I: The effectiveness of debt relief contains individual case studies outlining improvements and advancements in poverty reduction that have been made possible by debt relief.

Part II: The need for additional debt relief uses three case studies to examine where debt relief is still needed in order to fight poverty and assist development in those case study countries.

The reason why these countries were chosen as case studies requires some explanation. The countries selected for Part I, Tanzania and Zambia, are both African, whereas the countries in Part II are all Asian (Indonesia, the Philippines and Bangladesh). The reason the Part I case studies focus on Africa is relatively straightforward. African countries make up the bulk of the HIPCs (Heavily Indebted Poor Countries): 15 out of the 19 HIPC completion point countries are African. And it is the HIPC completion point countries that have received the most substantial debt relief and where, in many cases, the effects of the relief have been closely followed.

The HIPC Initiative has been part of the world's attempt to counter some of the damage and suffering on the African continent. Given its enormous problems, this preoccupation with Africa is easy to understand. However, the early results in Africa show that debt relief can work, and that it is now time to start rolling out debt relief programs to the rest of the world, including to countries that have a slightly higher level of human development on average than the HIPCs. Many of these countries are in Asia.

It makes sense furthermore to choose Asian countries as Australia is, geographically at least, part of Asia and this paper will mostly be read by an Australian audience. Although Indonesia and the Philippines have bilateral debts to Australia, this paper is not seeking to create a political issue in choosing these countries. Bangladesh has already paid off its bilateral debt to Australia and yet it was considered a good candidate for inclusion. As for Indonesia and the Philippines, the fact is that both are countries with massive debt much of which was incurred by corrupt regimes and which have large populations living in real poverty. The case can and should be made elsewhere to cancel these countries' bilateral debt to Australia, but the debt they owe to Australia dwarfs the amounts they owe to other lenders. This is a case for debt relief to these countries from *all* lenders.

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1 Not all the multilateral debt of the four Latin American HIPCs will be cancelled, as the Inter-American Development Bank has not consented to give MDRI debt cancellation as the World Bank, the IMF and the African Development Bank have done.

2 See for example, Jubilee Australia, *2006 Policy Platform*, {www.jubileeaustralia.org.au}.

Part I: The effectiveness of debt relief

A brief history of debt relief and the HIPC Initiative

By the mid-1990s the debt crisis in the world's poorest countries had progressed to such a stage that action had to be taken. The twin strategy of debt restructuring and IMF structural adjustment programs had failed to bring these countries out of poverty and in many cases had done more harm than good. In 1996 the G8, the World Bank and the IMF introduced the HIPC (Heavily Indebted Poor Countries) Initiative. This was an attempt to provide some debt relief to these countries while still maintaining that they had to pay back most of their loans so long as their debt remained 'sustainable' under certain criteria.[3]

But the HIPC Initiative did not work. Overly stringent debt-sustainability requirements meant that countries were still paying more for debt service than health and education. Poverty-reduction was still coming a distant second to debt repayments. Three years later, in 1999, strong campaigning by Jubilee 2000 and others forced changes and a revised HIPC Initiative (HIPC II) was announced. This deal, agreed to by the G8 at Cologne in 1999, also promised substantial bilateral debt relief for HIPC countries. Yet five years later, these poor countries had yet to receive two-thirds of the promised $111 billion[4] of debt relief.[5]

Nevertheless, despite continuing poor results from the HIPC program, some debt relief money was beginning to be received and spent. In the meantime, there had been further reform of the HIPC process. 2005 saw the Gleneagles G8 deal finally abandon the notion of debt sustainability for the most 'deserving countries'. Eighteen countries (now nineteen[6]) have been promised full debt cancellation of their World Bank, IMF and African Development Bank Debts under the MDRI agreement. This amounts to $37 billion into the budgets of these countries over the next 40 years.[7] Some countries, such as Zambia, have been able to announce already where some of the money is to be spent, despite the fact that payments will not be coming in until 1 July 2006.

Therefore, between the money that has already been allocated through debt relief between 1996 and 2006 through the HIPC initiative and the money being made available in the future through the MDRI, there is a growing body of evidence to indicate that the debt relief money has gone, and will go, toward the right places.[8] However, we will be looking at two countries, Zambia and Tanzania, to see exactly where the money has gone and exactly how effective debt relief can be.

These countries are representative of the choices that all completion point HIPCs are making. In a recent interview, Benedicte Christensen, the IMF Deputy Director for Africa, said that the IMF has been tracking the budget of HIPC program countries receiving relief, and that there have been increases in poverty-reduction spending for every country.[9]

That said, there are challenges in any low-income country in ensuring money goes where it is supposed to, and our expectations should be tempered by the sober reality of life on the ground in many of these places. There are so many problems with health, education, the environment and infrastructure, that debt relief is never going to be a magic panacea to all of these. However, it is a vital part of the solution.

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3 The main sustainability criteria under HIPC has been a 150% debt to exports ratio, i.e. under this amount, debt is said to be 'sustainable'.

4 Unless otherwise specified, all dollar values are in US currency.

5 Jubilee Research, CAFOD, Jubilee Debt Campaign, *Did the G8 Drop the Debt? Five years after the Birmingham Human Chain, what has been achieved, and what more needs to be done*, May 2003, {http://www.leedstidal.org/documents/Did%20the%20G8.pdf}, p 15-17.

6 Cameroon has recently reached decision point status, 'IMF And World Bank Support Cameroon's Completion Point Under The Enhanced HIPC Initiative And The IMF Immediately Grants 100 Percent Debt Relief To Cameroon Under The Multilateral Debt Relief Initiative', *World Bank Website*, 1 May 2006, {http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20907054~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html}.

7 $37 billion of this will be from the World Bank, $2.3 billion from the IMF. See 'World Bank: Full debt Cancellation Approved for Some of the World's Poorest Countries', *World Bank Website*, 21 April 2006, {http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20897535~menuPK:34463~pagePK:34370~piPK:34424~theSitePK:4607,00.html}, 'IMF to Extend 100 Percent Debt Relief for 19 Countries Under the Multilateral Debt Relief', *IMF Website*, 21 December 2005, Initiative{http://www.imf.org/external/np/sec/pr/2005/pr05286.htm}

8 Evidence has been gathered on health and education programs in Uganda, Mozambique, Niger, Malawi and Burkina Faso: 'Facts and statistics on debt from Jubilee Debt Campaign', *Jubilee Debt Coalition Website*, {http://www.jubileedebtcampaign.org.uk/?lid=724}.

9 Her actual words were: 'Under HIPC debt relief, we have tracked closely what has happened in the various recipient countries, and for instance, we have seen increases in poverty-reducing expenditures in the budget, and there are reports on that for each of the countries.' Transcript of the Press Conference on the Regional Outlook for Sub-Saharan Africa, International Monetary Fund, 21 April 2006, http://www.imf.org/external/np/tr/2006/tr060421a.htm

Debt relief and corruption

Corruption and irresponsible lending and borrowing produced much of much of today's debt problem. In particular, corrupt regimes played a large role in the history of the indebtedness of some of the countries that this report considers. The continuing existence of corruption is used as an argument against debt relief. It is therefore important to briefly address this issue before looking at the individual case studies.

The focus on the injustice of debt is the start of a new era where it will be harder for countries to fall into debt again. If odious debt is forgiven, it gives lenders a clear disincentive to repeat the mistakes of the past. Also, debt relief at the moment is being matched with requirements for better governance in these countries: requirements that were demanded by civil societies in the developing countries themselves.[10] As improved governance and accountability take hold, and with the economic benefits that follow, we will see less and less of these corrupt borrowing practices of the past.

Although there is still corruption in the world, there are increasingly fewer corrupt dictators ruling odious regimes than in the past: Suharto, Marcos and Mobutu, for example, are all gone. The fight against corruption continues, but in the main both lending and borrowing have become more responsible since the 1970s and 1980s.

Finally, poor governance and lack of transparency may still be a problem in many parts of the world, but it is not enough of a reason to withhold debt relief and aid from the poorest countries. The presence of corruption is not a good enough reason to withhold aid. Not giving aid will cost developed countries in the long term, and engagement with countries with governance problems is more likely to help reform than disengagement.[11]

10 It was largely through pressure from NGOs that the Enhanced HIPC Initiative (HIPC II) introduced political conditionalities that tied debt relief to political accountability in indebted countries. *Did the G8 Drop the Debt?*, p 6-7.

11 *Can Aid Be Effective When Corruption Is Present?*, A Report for Make Poverty History Australia, May 2005.

Case study: Zambia

Zambia, a moderately sized sub-Saharan country of over 10 million people, is one of the poorest in the world. Like many of its neighbours, it is plagued by unemployment, extreme poverty and disease. Today, Zambia's major social indicators rank among the worst in Africa. Like many other poor and heavily indebted countries, Zambia's development and progress slowed and were worse during the 1990s than in any other previous decade. The average life expectancy in Zambia fell 15 years, from 54 years in 1990 to 39 years in 1999, before reaching 37 years in the period 2000-2005.[12] The infant mortality rate increased slightly from 1990 to 1999, at a time of considerable improvement in such indices in most other parts of the world.[13] Today, Zambia has as much as 65% of the population under the World Bank poverty line of a dollar a day.[14]

Debt relief

Zambia qualified for HIPC debt relief with the IMF, World Bank and Paris Club in 2000. As with all HIPCs, new economic policies were devised and poverty reduction strategies formulated. Zambia reached decision point under the HIPC program in 2000 and it passed completion point in 2005. Most recently, the IMF approved two separate debt relief packages, which could reduce Zambia's overall external debt from $7 billion to about $502 million. Following this relief, in February of this year, Zambian Finance Minister Ng'andu Magande released a new $3 billion budget. With the help provided by debt relief, 71% of this new budget will be financed locally as opposed to having the budget financed chiefly by lenders and donors as it had been in the past.[15]

Health care status and advancements

Zambia has long battled with poor health and crippling disease. HIV/AIDS, malaria, tuberculosis and measles have taken lives in devastating numbers in Zambia. AIDS and HIV are the biggest killers. The HIV and AIDS epidemic in Zambia is amongst the most devastating in the world. AIDS alone kills qualified professionals in Zambia faster than new professionals can be trained. One in five Zambians is HIV positive. Over 32,000 HIV-positive children are born every year in Zambia, and most of these children do not live to five years of age. And malaria claims 40,000 children under the age of five each year. It is estimated that 80% of preventable diseases are related to poor levels of sanitation.[16]

12 Human Development Report. Country Sheet: Zambia {http://hdr.undp.org/statistics/data/countries.cfm?c=ZMB} 2006.

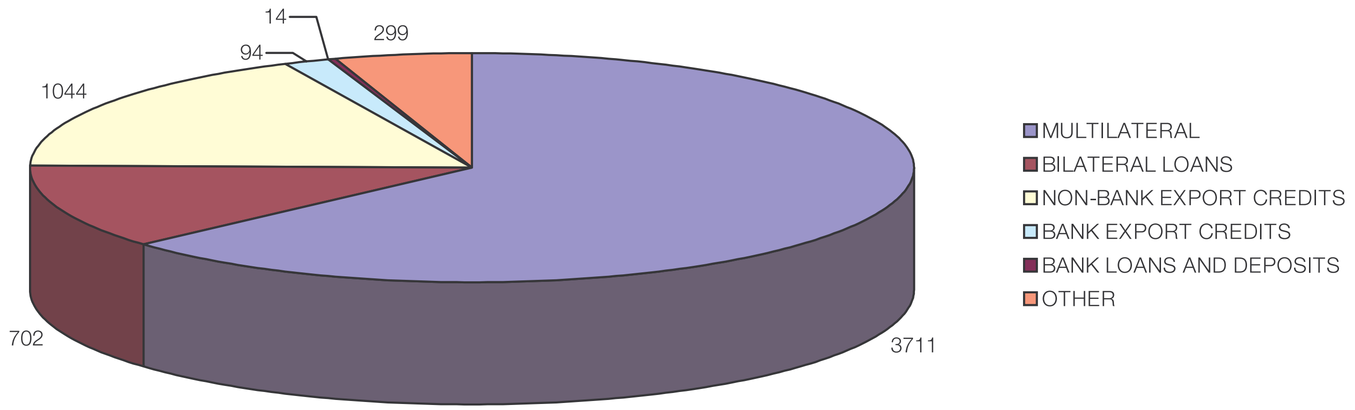
13 IRIN 'Zambia: Rise in poverty reduction spending, but workers protest wage freeze', 11 April 2006.

14 Reuters 'Zambia introduces free health care after debt relief', 3 April 2006.

15 Reuters 'Zambia to use debt relief to hire doctors, teachers', 6 February 2006.

16 IRIN 'Zambia: Rise in…'

FIGURE 1: ZAMBIA DEBT OUSTANDING END 2002 (US$ MILLION)



However, as a result of the recent debt relief granted to Zambia, firm steps have been taken to improve the state of health care within the country. The budget for health care has been expanded. Zambia has announced the abolition of health fees within the country which, ranging from around $5 and $10, were too costly for most Zambians. Beyond the fees, there exists a shortage of qualified doctors and nurses who tend to flee Zambia for Europe and the United States for better paying jobs. This shortage of qualified professionals has pushed the doctor to patient ratio to one per 14,000, a staggering number, especially compared to England's ratio of about one per 600. To combat this problem Zambia now has the resources to recruit 800 more qualified nurses and doctors nationwide. This will further increase the access and quality of the medical care available to the Zambian people.[17]

The rise in health expenditures is substantial as well. Within the new budget recently presented by Magande, 18% of the $3 billion is slated to go towards HIV/AIDS treatment and other health programs as well as for training of medical staff.[18]

Education advancements

Similar to its struggles in providing adequate health care for its people, Zambia has had past difficulties in providing acceptable conditions for the education of its children. At present, Zambia only has about 43,000 primary and high school teachers in the nation. This number of teachers leaves the teacher to student ratio at half of the recommended level. The ratio stands at one teacher per 60 students rather than one to 30. With money freed from debt relief, the government has been able to recruit 4, 578 more teachers for Zambian schools.[19]

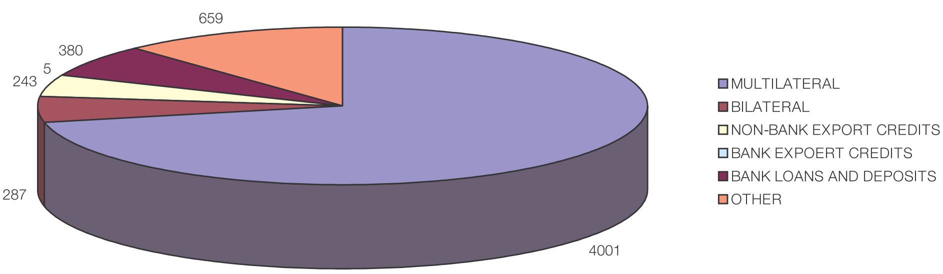
Discussion of health care and education advances

Improving health conditions and preventing the spread of devastating disease has been the first priority for Zambia in recent years, and rightfully so. The budgeting for poverty reduction that has come from debt relief has prioritised health care over education. If Zambia is going to achieve the UN Millennium Development Goal of ensuring that all children will complete a full course of primary schooling by 2015, it must increase its enrolment rate. According to the most current enrolment figures, for the 2002-2003 school year, Zambia's net primary enrolment ratio was 68%.[20] To achieve the increase they need in the next nine years, education – especially primary education – needs to be made more widely available. A vast increase in the number of classrooms and school buildings is required, as well as basic supplies and materials such as desks, books, and writing materials.

17 Reuters 'Zambia introduces free health…'
18 Reuters 'Zambia to use debt relief…'
19 Reuters 'Zambia to use debt relief…'
20 Human Development Report. Country Sheet: Zambia {http://hdr.undp.org/statistics/data/countries.cfm?c=ZMB} 2006.

Case study: Tanzania

FIGURE 2: TANZANIA DEBT OUTSTANDING END 2002 (US$ MILLION)



Tanzania, another sub-Saharan country, has a population of 37 million; over three times the population of its neighbouring Zambia. Tanzania too, despite promising economic progress and growth in recent years, still stands as among the poorest countries in the world. Its per capita income is estimated at approximately $250 per year.[21] Tanzania's HDI (Human Development Index) rank is 164 of possible 177 countries.[22]

Debt relief

Tanzania reached decision point in the HIPC Initiative in 2000, and reached completion point under the framework of the enhanced HIPC Initiative in November of 2001. At the time, Tanzania's total external debt had been reduced considerably as they received $3 billion in debt relief. Since then, under the MDRI, the IMF and the World Bank have cancelled the total debts incurred by Tanzania. Although Tanzania still has bilateral debt to pay off, these debt cancellations have enabled Tanzania to move forward and allocate more money to poverty reduction.

Health care status and advancements

Tanzania's health situation is poor and below that of many other African countries. Tanzania battles disease and many health problems that tend to arise from poor water and sanitation conditions. Malaria is the most deadly disease, accounting for over 15% of all deaths. Other diseases that plague the country include chronic illnesses such as hypertension and diabetes, waterborne diseases, acute respiratory infections and HIV/AIDS. HIV/AIDS and other related diseases are a large burden: approximately 30% of all resources are spent on illnesses related to HIV/AIDS.[23] About 7% of the Tanzanian population is infected with HIV and approximately 200,000 have developed AIDS.

With money freed from debt relief, the Tanzanian government pledged in 2005 that they wanted to increase the number of AIDS patients that are receiving antiretroviral drugs in Tanzania and continue to fund various other health care initiatives. Although the figures of these allocated funds are not currently available, we expect to see them represented in the next Human Development Report.

Education status and advancements

Education stands as one of Tanzania's crowning achievements in their recent progress arising from debt relief. Since Tanzania's qualification into the HIPC program, various government initiatives and programs have been put in place to raise the standard of education in the country. The five-year Primary Education Development Program (PEDP), which began during the 2001-2002 year and now in its firth and final year, is one of the first elements of the Education Sector Development Program (ESDP). The overall aim of these programs is to continue to focus on the goals of their Poverty Reduction Strategy, expand the overall enrolment and improve the quality of education in Tanzania.[24] After only three years of the PEDP, extraordinary successes have been made. The government has abolished school fees in primary education making that level more widely available for Tanzanian children. There has been an increase of 50% in primary school enrolment between 2000 and 2004. Over 2.5 million more children are in primary schooling now as a result. These achievements have raised the Net Enrolment Ratio (NER) to 90.5% in 2004 from less than 60 percent in 2000. That is an extraordinary leap in enrolment in a very short period of time, especially when dealing with such a large student population. All of these achievements have put Tanzania on track and even ahead of schedule in meeting the UN's primary education Millennium Development Goal by 2015.

Further successes have come in infrastructure. In the same amount of time 31,825 new classrooms and 2,035 new schools were built. The amount of materials that have been provided to students has also increased considerably. The book to student ratio has improved for all classes I through VII. Over 9,000 science kits have been supplied to the schools along with many other teaching materials. The number of teachers that schools have been able to secure has increased greatly as well. In the first three years of the program, over 62,000 teachers were either retained or recruited.[25]

21 AFRODAD, 'Debt Profiles: Tanzania', *AFRODAD Website*, {http://www.afrodad.org/index.php?option=com_content&task=view&id=52&Itemid=96} African Forum & Network on Debt & Development, 2006.

22 Human Development Report. Country Sheet: Tanzania {http://hdr.undp.org/statistics/data/countries.cfm?c=TZA} 2006.

23 All preceding statistics are from section 4.5 'Health Sector' within *Tanzania: Poverty Reduction Strategy Paper Progress Report Country Report* No. 04/282. September 2004, p 32-35.

24 IMF Tanzania: *Poverty Reduction Strategy Paper Progress Report* IMF Country Report No. 04/282. September 2004, p 20.

25 All of the educational statistics found in these paragraphs are taken from 'The address of President Benjamin William M'kapa of Tanzania to Jubilee Debt Campaign's annual conference in February 2005: President of Tanzania at Jubilee Debt Campaign conference', *Jubilee Debt Campaign Website*, 26 February 2005, {http://www.jubileedebtcampaign.org.uk/?lid=560}.

Part II: The need for additional debt relief

A human development approach to debt relief

The approach taken by creditor countries and institutions to debt relief has not worked. Imposing such high debt repayments has been unsuccessful and disastrous: unsuccessful because it has not helped the economies of poor countries improve and disastrous because in drawing resources away from the social sectors it has done untold damage to their people.

With the G8 in 2005 and the implementation of the MDRI, creditors have now acknowledged the failure of the previous approach to debt relief. Debt cancellation will start for the 19 HIPCs that have reached completion point, and potentially for the 11 countries that will have reached decision point in the next couple of years. In essence, the G8, the World Bank and the IMF have been forced to revise their strategy as a result of the abject state of so many African countries and the recognition that something had to be done about it. Of the 19 completion point countries 15 are HIPCs, and all 20 decision and pre-decision point countries are African (the other four are in Latin America). Of the 38 countries eligible for the HIPC program, only four are not African.

The focus on sub-Saharan Africa has been for good reason. It is the region with the highest proportion of people living in extreme poverty, by a considerable margin. However, there are many more people living in poverty who are not from these 34 African or four Latin American countries. They also urgently require debt relief, but creditors have been reluctant to consider them, arguing that their debt is sustainable. Meanwhile millions continue to live in poverty.

What is a human development approach to debt relief? The idea is very simple: human development needs should supercede considerations of 'debt sustainability' that are essentially based on economic considerations. In committing to debt cancellation for the HIPCs that reach the end of the program, the G8, the World Bank and the IMF have effectively embraced a human development approach to debt relief, for those countries at least.

The following case studies argue that this train of thought should be applied to other non-HIPC countries. Putting human development at the centre of debt considerations does two things: it saves lives and it helps communities and countries climb out of poverty. There is no reason why it should not therefore be applied to all indebted countries that are afflicted by poverty, not only the low population, highly indebted countries, with tiny economies. In fact the three case studies below are all large countries with large populations and growing economies (although Indonesia's economy is still recovering from the economic crisis of the late 1990s). Nevertheless they all have millions of people in poverty, and, as the following examples will show, debt relief is needed to release funds for the health, education and development needs of these people.

Each of the following case studies has three sections: a preliminary discussion of the political and economic background, an analysis of the debt burden, including how the debt was accrued, and a summary of the state of poverty and development in the country at the present time.

Much of the information in the following case studies has been taken from Human Development Reports put together by the United Nations Development Program (UNDP) and other such sources. In each case study we are guided by two considerations: firstly, what recommendations do these reports make in terms of improving poverty and encouraging development, and secondly, how are the countries performing with regards to the Millennium Development Goals (MDGs). In order to assess performance on the Millennium Development Goals, there are Millennium Development Indicator tables in the Appendix for each country.

While the MDGs are an excellent framework, they and the accompanying Millennium Development Indicators do not measure every poverty-related statistic. There are relevant health and education statistics they do not cover. For instance, the indicators only consider those living in extreme poverty, not poverty per se[26]; they only consider enrollment in primary, and not secondary, education; they do not discuss physical security, which although it is not part of the MDGs, is both a fundamental human right and an important ingredient that encourages development. While using the MDGs as a baseline, other statistics should also be discussed where relevant.

26 Extreme poverty is defined as living on less than one dollar (US) a day, whereas poverty is defined as living on less than two dollars (US) a day.

Case study: Indonesia

Political background and economy

Dominated by Dutch colonialists for centuries, the islands that now make up the Indonesian archipelago came under complete Dutch rule in 1910. The Japanese occupied the country in the Second World War, after which Indonesia was granted independence under President Sukarno. Five years later, on 17 August 1950, the Republic of Indonesia was publicly declared. In March 1967, Sukarno was dismissed as President, as a result of authoritarian style governance and growing economic mismanagement. In March 1968, Suharto was elected as President. President Suharto immediately put into effect Golkar, or Functional Groups, a move that ensured complete bureaucratic control – evident throughout the seven parliamentary elections that saw him reign until resigning in May 1998.

Indonesia was the country hit hardest by the Asian financial crisis – the financial collapse in 1997 that triggered many upheavals both economic and political. It brought down the Suharto regime and fostered a new and unsteady democracy. There have since been two free elections. At the same time there have been a number of separatist movements within the country, most notably in East Timor (which became independent in 1999 after a violence-marred ballot), Aceh (which was hit hard by the 2004 Boxing Day Tsunami) and West Papua. The fall of Suharto has also seen a growth in Muslim extremism and acts of terrorism.

Statistics from 2003 recorded the Gross Domestic Product (GDP) at $208.3 billion, or $963 per capita. Primary industries include petroleum and natural gas, mining, plywood, cement, rubber, textiles, apparel and footwear. Statistics from 2001 indicate that exports generated $US56.5 billion predominantly from oil and gas, plywood, textiles and rubber.

Debt burden

The origins of Indonesia's debt problem lie in the heavy borrowing of the Suharto Government from the late 1960s onwards. The Suharto regime was a favoured client of the World Bank, although many of the loans from that period found their way into the hands of Suharto's family and friends. The World Bank gave loans to Indonesia of approximately $30 billion, of which it perhaps as much as a third was stolen.

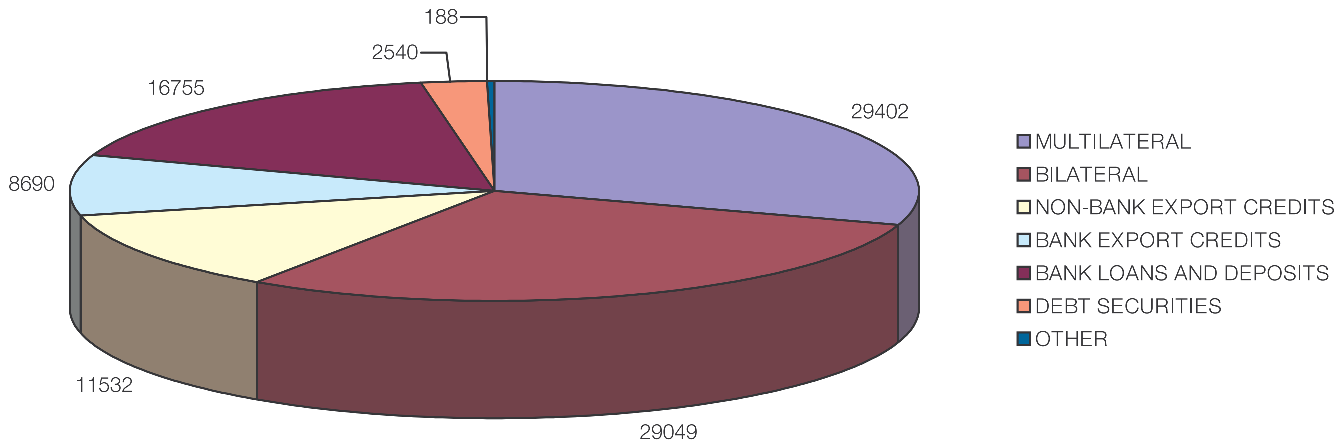
In the late 1980s and 1990s, a rapid economic boom was accompanied by even more reckless borrowing by Indonesian companies. When the financial crisis hit Indonesia in 1997, the Rupiah became devalued and the Government felt compelled to step in and assume the debts of the companies. Government debt skyrocketed from $53 billion before 1997 to $134 billion in early 2000. The World Bank and the IMF have been criticised for encouraging this situation to develop by deregulating the banking system in the 1980s and thus allowing lenders to bear much of the responsibility for writing irresponsible loans.

Indonesia's debts are divided among its creditors in the following way: about 30% is multilateral debt, about 30% is bilateral debt, about 20% is export credit agency debt, and about 15% is commercial debt.[27]

Determining spending on health and education is difficult in a country like Indonesia, where large numbers of people seek private schooling and private healthcare. Therefore the figures do vary. Yet, however the measurement is arrived at, the amount of money Indonesia spends on debt service dwarfs health and education spending. According to the 2005 UN Human Development Report, health and education spending as a percentage is approximately 1.2% of GDP and debt service is approximately 8.7% of GDP.

27 According to the joint BIS-IMF-World Bank figures for 2002.

FIGURE 3: INDONESIA DEBT OUTSTANDING END 2002 (US$ MILLION)



MDG and poverty analysis

The financial upheaval of the late 1990s produced an immediate increase in poverty which has since been returning to the pre-crisis levels; the population of people living in income poverty rose from 17 to 23% from 1997 to 1999 and has since fallen back to 18% in 2002. However, this still represents 38 million people. Moreover, those that are poor are worse off than before. Perhaps as many as a third or a half of the population of Indonesia is vulnerable to falling below the poverty line at any point – reflecting considerable movement in and out of poverty for many people.[28] The figure for those in extreme poverty over recent years has remained steady at 7.5%. Indonesia's large population means this equates to fifteen million people.

In terms of the MDGs, Indonesia has had some promising results and some which remain of great concern. Infant mortality has fallen considerably from 1970 to 2003, from 118 to 35 deaths per thousand live births; but compared to the infant mortality rate in Thailand (20 per thousand) and Malaysia (6 per thousand) Indonesia is still well behind its neighbours.[29] The maternal mortality rate has fallen about 10% to 307 per 100,000 live births in the period from 1995 to 2002, which leaves 20,000 women still dying each year. In both infant and maternal mortality there are large disparaties across country regions.[30]

Infectious diseases are still a problem: there are around 30 million cases of malaria a year, and tuberculosis and dengue fever are also damaging, although to a lesser extent. A large network of health centres is well distributed around Indonesia, but the health system is still one in which the user pays a percentage of the cost. This percentage is still substantial for the average Indonesian and paid bribes are often additionaly required. The UNDP National Development Report for Indonesia has recommended a comprehensive package for the poor: a coordinated program of immunization, family planning, mother and child health care and curative care for tuberculosis, malaria and other diseases. The cost of all this would increase budgetary spending on health by only 38% and save many lives.[31]

Indonesia is doing quite well on its primary education attendance; reaching 94% enrolment in recent years. However, in some provinces it is considerably lower than this, only 80% for example in Gorontalo and Papua.[32] Only about half of Indonesia's children are completing the three years of junior secondary school. It is estimated that in order to reach Government targets of universal primary education and 95% junior secondary education spending on education would have to be almost doubled.[33]

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28 National Human Development Report 2004, *The Economics of Democracy: Financing Human Development in Indonesia*, BPS-Statistics Indonesia, BAPPENAS, United Nations Development Programme, June 2004, p 13.

29 National Human Development Report 2004, p 30.

30 National Human Development Report 2004, p 31.

31 National Human Development Report 2004, p 33.

32 National Human Development Report 2004, p 35.

33 National Human Development Report 2004, p 37.

Case study: The Philippines

Political background and economy

A former Spanish colony for more than 350 years, the Philippines was ceded to the United States as a consequence of the American-Spanish War. The islands were also occupied by Japan during the Second World War. Independence was granted in 1946, but sovereignty brought neither economic nor political progress to the country. Violent separatist movements and corruption have marred the country's recent history. The most traumatic experience the country has faced was during the former president Ferdinand Marcos' government (1965-1986). Marcos ruled an authoritarian and corrupt government borrowing heavily from international institutions and indebting the country. Much of the Philippines' external debt comes from this period. Unfortunately the corruption experience was repeated recently in Joseph Estrada's government from 1998 to 2001. Like Marcos, Estrada is accused of plundering the economy for his own benefit.

The Philippines' economy has grown 4 to 5% per year in the last few years.[34] The service sector, especially based in telecommunications and business process outsourcing, has accounted for 47% of output, followed by industry (5.3%) and agriculture (4.9%).[35] Trade also has also performed well due to strong consumer spending – supported in great part by the remittances of overseas Filipino workers.

Debt burden

The country's estimated debt is about US$63 billion. Payment on interest is the biggest expenditure in the national budget – 31% of the budget in 2004, more than investment on all social services combined[36]; the ratio of government debt to GDP is around 80%.[37] Filipinos have had the misfortune to have sufferred two of the ten most corrupt leaders the world has ever seen: Ferdinand Marcos and Joseph Estrada. Marcos is estimated to have embezzled between US$5 billion and US$10 billion while Estrada is believed to have misappropriated from US$78-80 million.

However, it was during Marcos' government that external debt blew up, rising from US$355 million in 1962 to US$28 billion in 1986. International institutions also played their part in this lending spree: the World Bank lent more money to the Philippines than to any other country of similar size and income at this time.[38] The 1973 oil crisis, when the western members of OPEC earned vast amounts of money from the rise of oil prices, encouraged financial institutions to lend freely to developing countries like the Philippines.

Then came the second oil crisis in 1979-80 and interest rates on old loans rose dramatically and debt repayments skyrocketed. Even though the Philippines presented a high risk of insolvency, it could still get loans from the banks. Lenders shut their eyes to what would be done with that money. At that time, Marcos's dictatorship expenditure on the military grew more than 300%, allowing the army to expand from 62,000 troops in 1972 to around 142,000 in 1976.[39] In 1971 he had declared martial law over the entire country.

Sadly, Marcos's successors have not been able to reverse the situation. Corazón Aquino, who succeeded Marcos in 1986, attempted to repay the debts during her tenure, in order to attract investment in the economy. In her first year, approximately 83% of export earnings went to pay US$3 billion in debt service repayments.[40] As result of Aquino's commitment to debt service, a shortage of money was unavoidable so she decided to borrow.

The government of Gloria Macapagal-Arroyo (2001-onwards) has taken further its obligations with creditors. According to the Human Development Report 2005, in 2003 11.5% of the country's GDP went to debt service.

34 United Nations Development Programme, *Second Philippines Progress Report on the Millennium Development Goals*, June 2005.

35 The World Bank, *Bangladesh Country Brief,* last update in July 2005 {http://www.worldbank.org.bd/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/BANGLADESHEXTN/0,,menuPK:295769~pagePK:141132~piPK:141107~theSitePK:295760,00.html}.

36 Christian Aid, *What About Us? Debt and the countries the G8 left behind*, September 2005 {http://www.christian-aid.org.uk/indepth/509debt/Debt%20report_Published-Sept2005.pdf}.

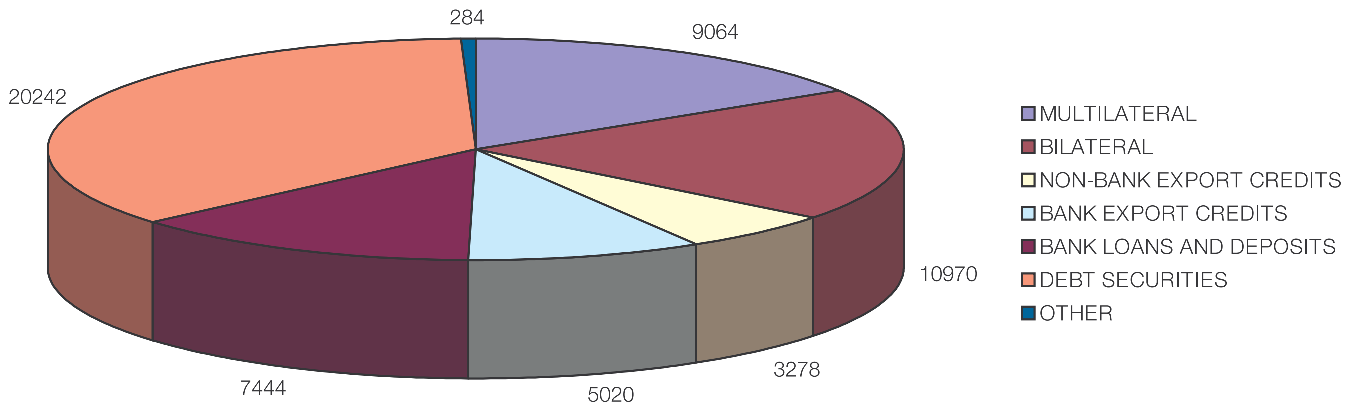
37 The Economist, *Mess in Manila*, 7/16/2005, Vol. 376 Issue 8435, p72-72, 1/2p, 1 graph

38 Christian Aid, *What About Us? Debt and the countries the G8 left behind*, September 2005, p 28-30.

39 *What About Us?*, p 28-30.

40 *What About Us?*, p 28-30.

FIGURE 5: PHILIPPINES DEBT OUTSTANDING END 2002 (US$ MILLION)



MDG and poverty analysis

Although the Philippines has shown progress towards achieving some MDGs, it is still slow compared to some others poor Asian countries. Debt is partly responsible for the unsatisfactory progress: government expenditure in social areas such as public health and education has decreased in recent years due in part to debt repayments.

Although the economy has performed well, this improvement has not flowed through to the Filipino poor.

Since the 1980s health expenditure has decreased from 4.54% of GDP to 1.60% of GDP in 2003. The national poverty rate, defined in terms of one's capacity to satisfy food requirements, remains high at 36.8%[41] of the population – or some 31.464 million people. The education budget has shrunk from 17.57% of GDP in 1995 to 16% of GDP in 2003.[42] About 14.6% of Filipinos live on less than a dollar a day.[43] This represents twelve million people, or the populations of New South Wales and Victoria combined.[44] Slum dwellers are also an alarming problem. In 2002, the government estimated that there were almost 589,000 families living in informal settlements.[45]

Nonetheless, poverty is not the only challenge: mortality and malnutrition for children and infants under five years are also barriers to the achievement of the MDGs. The prevalence of malnutrition is 27.6%, while mortality stands at or close to 40%.[46] Even though HIV/AIDS is not considered a huge problem, the number of HIV-positive cases has increased from 1451 cases in 2000 to 2200 in December 2004. Filipino epidemiologists and experts estimate that the actual number of HIV cases is around ten thousand.[47] On the other hand, malaria and tuberculosis remain lethal. Malaria is the eighth leading cause of morbidity – 45 cases per 100,000 people in 2002, and the incidence of tuberculosis was 142 cases per 100,000 in 2001.[48]

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41 United Nation Development Programme, *Human Development Report 2005*, figures for 2003.

42 United Nations Economic and Social Commission for Asia and the Pacific (Unescap).

43 United Nations Development Programme, *Human Development Report*, figures for 2003.

44 Australian Bureau Statistics, figures for 2003.

45 United Nations Development Programme, *Second Philippines Progress Report on the Millennium Development Goals*, June 2005.

46 *Second Philippines Progress Report*, figures for 2002 and 2003.

47 HIV/AIDS Registry of the National Epidemiology Centre.

48 *Second Philippines Progress Report.*

Case study: Bangladesh

Political background and economy

With the partition of India in 1947 and the independence of Pakistan, the region of Bengal was divided along religious lines. The Hindu West became the Indian state of West Bengal, and Muslim East (present Bangladesh) was incorporated into Pakistan. Unequal distribution of resources took both sides into a civil war that resulted in the People's Republic of Bangladesh achieving sovereignty in 1971. However, post-independence Bangladesh was even more unstable, with constant leadership changes and military coups. Only in the beginning of the 1990s did democracy seem to have been restored.

Bangladesh depends on its agricultural production to survive. About 76% of the population lives in rural areas, which indicates the country's low level of development. Although agriculture is essential for Bangladesh's economy and employment, it does not have the capacity to absorb the demand for jobs. About 40%[49] of the population is unemployed or underemployed.

Bangladesh has achieved food self-sufficiency; however droughts and unpredictable climatic conditions regularly damage harvests and force the government to import food. The country is also vulnerable to natural disasters such as cyclones and flooding, which can cost the government billions of dollars. From July to September 2004, the country experienced devastating floods, which affected 25% of the population; almost 800 people died, nearly 900,000 houses were destroyed and over 3 million damaged. Total damages were estimated to be approximately $2.3 billion.[50] Corruption and government inefficiency are also another constraint on the achievement of the MDGs, wasting around $1.5 billion a year[51], money that could be spent on health care or to combat poverty.

Debt burden

Bangladesh's external debt is largely concessional, which keeps the net present value (NPV) of total external debt to levels at which servicing remains possible.[52] Total debt is estimated to be $21,500 million.[53] The creditors are multilateral institutions (67% of its debt), bilateral creditors (32%, especially Japan), and private creditors (only 1%).[54] Since 1972, the year that Bangladesh joined the World Bank, the country has received $17.2 billion from the IDA (International Development Association) for the finance of 209 operations. In 2003, Bangladesh's total debts were five times larger than in 1980, standing at $ 18.8 billion.[55] So far the country has been a good debtor, which is believed to be the reason why the country was not included in the HIPC (Heavily Indebted Poor Countries) Initiative.

Besides its foreign debt, Bangladesh faces rising commitments on its domestic debt, estimated to be 18.2% of its GDP. These further restrict the resources available to the government for poverty reduction. Together, domestic and external debts represent 53.5% of GDP.[56] The country spends more on debt service (1.3% of its GDP) than on public health expenditure (0.8%).[57]

In 2004, Bangladesh received $954 million as official aid, 39.8% less than in 2003 ($1585 million). The repayment of official external debt in 2004 was US$ 562 million, 60% of the total overseas development assistance.[58]

49 Hindustan Times, Bangladesh economic profile, {http://www.hindustantimes.com/news/7598_1161373,001600840001.htm}

50 World Bank, Bangladesh Country Brief, *World Bank Website*, July 2005.

51 World Bank figures: *Jubilee Research website*, Bangladesh profile, {http://www.jubileeresearch.org/databank/profiles/bangladesh.htm}.

52 Jubilee research, Data Bank for Bangladesh, last update October 2002 {http://www.jubileeresearch.org/databank/profiles/bangladesh.htm}.

53 The World Fact Book from the CIA (Central Intelligence Agency) estimates that Bangladesh's external debt is $21,250 million for 2005. According to the World Bank, Bangladesh's long-term debt is $19.2 billion in 2004.

54 The World Development Movement (WDW), *The Non-HIPCs: indebted, excluded, and poor*, August 2000, {http://www.wdm.org.uk/campaigns/cambriefs/debt/nonhipcs.pdf},

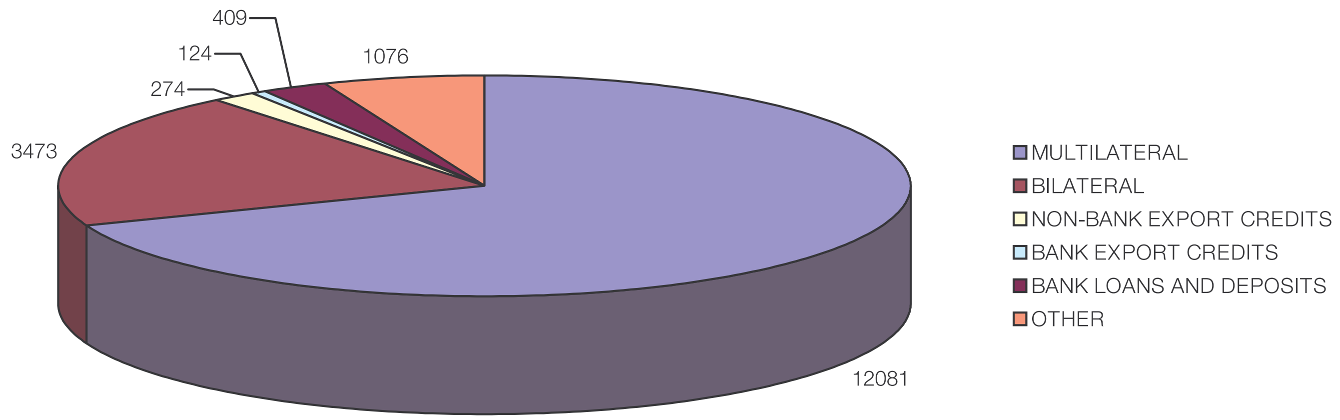
55 World Bank, *World Development Indicators*, 2005.

56 Jubilee Research, 'Data Bank for Bangladesh', October 2002, figures for 2000 and 2001.

57 United Nations Development Programme, *Human Development Report 2005*, figures for 2002 and 2003.

58 Statement by HE Dr Iftekhar Ahmed Chowdhury, 'Ambassador and Permanent Representative of Bangladesh to the UN at the Second Committee on agenda item 50 on International Financial System and External Debt Crisis and Development at the 60th Session of the UNGA', New York, 10 October 2005, {http://www.un.int/bangladesh/ga/st/60ga/financeaid.pdf}.

FIGURE 6: BANGLADESH DEBT OUTSTANDING END 2002 (US$ MILLION)



MDG and poverty analysis

Even though Bangladesh's GDP is growing at a rate of about 5% per year[59], the country remains one of the world's poorest and least developed nations, being home to the third highest absolute number of poor people in the world, after China and India.[60] Although population growth has decreased in the last decades, it is still one of the main restraints to social and economic development. Bangladesh has the eighth largest population in the world (141. 8 million in 2005).[61]

Combating extreme poverty is still one of the main challenges facing the country. About half of its huge population is poor and more than one-third of the population – 51 million people – live on less than a dollar a day.[62] The country's per capita GDP (US$ 1.770 in 2003) is one of the lowest in the world. In developed countries such as Australia, the United States and Luxembourg, the equivalent GDP per capita is $29,632, $37,562 and $62,298, respectively.[63] The incidence of malnutrition in the country remains the highest in the world.

Public health is a big challenge for the achievement of the Millennium Development Goals, especially child health. Almost half of children under five years old (48%) are underweight, putting them at risk of infectious illnesses such as diarrhoea and pneumonia. This can explain why infant mortality rate is so high in the country. According to the UNICEF, 69 in 1000 children die before reaching their fifth birthday. Among infants from birth to one year old the mortality rate is 46 in 1000 live births. Maternal mortality is also an alarming problem: 380 mothers die for every 100,000 births.[64] Only 13% of births in Bangladesh are attended by skilled health personnel[65].

Only 48% of the population have access to improved sanitation and 25% do not have access to an improved water source. Natural arsenic poisoning in Bangladesh's groundwater is a big problem in rural areas. So is the danger of HIV/AIDS. Although the number of cases in the country is still relatively low, behaviour patterns and risk factors such as low condom use within the country's large sex industry, blood transfusions from an unsafe blood supply, sharing of infected needles by injecting drug users and lack of knowledge about the disease among the population at large make the risk of contamination high.

59 World Bank, Bangladesh Country brief, July 2005.

60 *World Development Indicators* 2005 (figures for 2002).

61 United Nations, *The World Population Prospects: The 2004 Revision, Department of Economic and Social Affairs of the United Nations.*

62 *Human Development Report 2005* (figures for 2003)

63 *Human Development Report 2005*

64 *Human Development Report 2005.*

65 *World Development Indicators*

Conclusion

Debt relief is an essential element of any strategy to defeat poverty: it places control of a nation's earnings back into its own hands, and, as our case studies have shown, nations have put the proceeds of debt relief to good use to improve health care and education.

The case studies make a compelling argument for debt relief. Even though the HIPC Initiative must be judged a failure in resolving the debt crisis of HIPC countries, it was a success on one level: it demonstrated that debt relief funds could be monitored and their impact on poverty reduction assessed.

Debt relief is a highly effective form of aid. It is direct budgetary support, which is more useful to governments fighting poverty than money that is project based; moreover, it is predictable, cyclical revenue that can be relied upon year after year. Zambia's health system and Tanzania's education system will reap the benefits of well-designed debt relief spending, but in the end it is the children of Zambia and Tanzania who will be the real beneficiaries. In two countries where there is so much suffering, these sorts of good news stories must be particularly treasured.

But it is time that debt relief is expanded beyond the HIPC program and the poorest of the poor. Other countries are also afflicted by the debt curse. Some of them, like the three countries this paper has examined, have much larger economies and populations, but they also have correspondingly large debts weighing them down.

At the most recent count, almost 80 million Filipinos, Indonesians and Bangladeshis were living on less than one dollar a day. As this report has shown, countries like Indonesia, the Philippines and Bangladesh have urgent health and education requirements, yet they lack the sufficient funds to address these because of their debt service commitments.

How can this situation be resolved? The only solution is for creditors to come together to act, as they have in the past, to reduce the debt burden. Doing so will not lift afflicted populations out of poverty overnight, but it will be an important element of a long-term strategy to do so.

While there have been successes, there is a long way to go. Ultimately, debt relief is just one strategy, along with increasing effective aid, bolstering trade and fighting corruption in these countries, although a significant one. The fight against poverty in developing countries is a massive challenge but it is one which humanity today can win, given sufficient political will.

Appendix: Millennium Development Indicators

The data in the tables are been sourced from the following websites: World Development Indicators, Human Development Report 2005, UNICEF, FAO, World Health Organisation. Figure 4 data is sourced from the Human Development Report 2005. Data for figures 1-3 and 5-6 is from the joint BIS - IMF - World Bank figures for 2002.

Table 1: Millennium Development Indicators for Indonesia

	2000	2001	2002	2003	2004
Population (total in millions)	206,264,992	209,014,096	211,816,752	214,674,160	217,587,504
Population below US$ 1 a day (%)	7.5	7.5	7.5	7.5	-
Underweight children under 5 years of age (%)	26	26	26	26	-
Population undernourished (% of total)	6	6	6	-	-
Net enrolment ratio in primary education (%)	92	92	92	92	-
Adult literacy rate (% ages 15 and above)	-	-	-	87.9	90
Ratio of girls to boys in primary and secondary education	96	98	98	98	-
Immunization, measles (% of children 12-23 months)	72	70	72	72	72
Children under five mortality rate per 1.000 live births	48	-	-	-	38
Prevalence of child malnutrition (% of children under 5)	25	26	27	28	-
Maternal mortality ratio (per 100.000 live births)	230 adjusted	310	310	310 reported	-
Births attended by skilled health personnel (%)	-	64	68	68	72
Population with sustainable access to an improved water source (%)	-	-	78	-	-
Population with access to improved sanitation (%)	-	-	52	-	-

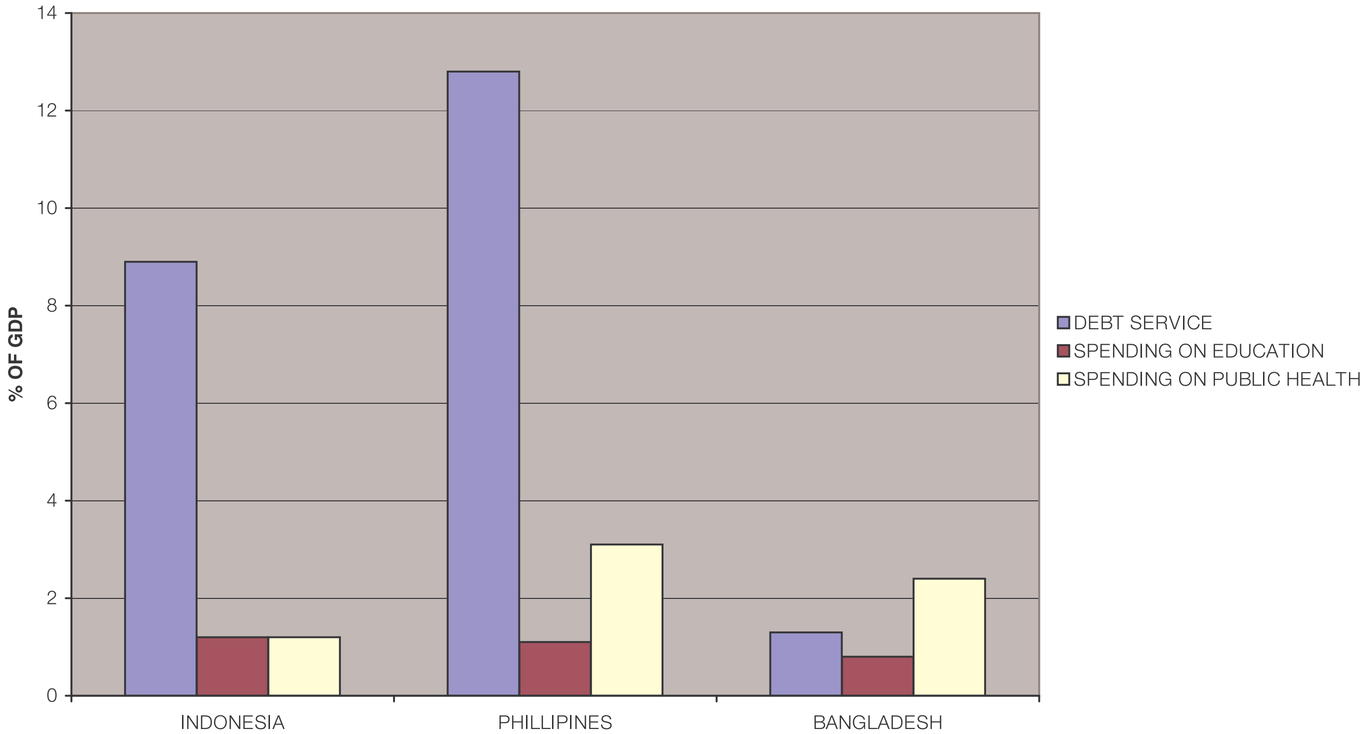
Table 2: Millennium Development Indicators for the Philippines

	2000	2001	2002	2003	2004
Population (total in millions)	75,766,144	77,237,400	78,705,184	80,166,344	81,617,024
Population below US$ 1 a day (%) HDR 2005 figures from 1990-2003	14.6	14.6	14.6	14.6	-
Underweight children under 5 years of age (%)	32	30.6	31	27.6	-
Population undernourished (% of total)	22	22	22	-	-
Net enrolment in primary education (%)	94	94	94	94	-
Adult literacy rate (% ages 15 and above)	-	-	-	92.6	-
Ratio of girls to boys in primary and secondary education	-	103	102	102	-
Immunization, measles (% of children 12-23 months)	81	80	80	80	80
Children under five mortality rate per 1,000 live births	40	-	-	28	-
Prevalence of child malnutrition (% of children under 5)	-	31	-	28	-
Maternal mortality ratio (per 100,000 live births)	200 (adjusted)	170 (reported)	170 (reported)	170 (reported)	-
Births attended by skilled health personnel (%)	58	60	60	60	-
Population with sustainable access to an improved water source (%)	-	-	85	-	-
Population with access to improved sanitation (%)	-	-	73	-	-

Table 3: Millennium Development Indicators for Bangladesh

	2000	2001	2002	2003	2004
Population (total in millions)	128,915,900	131,461,400	134,029,100	136,615,300	139,214,500
Population below US$ 1 a day (%)	36	36	36	36	-
Underweight children under 5 years of age (%)	48	48	48	48	-
Population undernourished (% of total)	30	30	30	30	-
Net enrolment ratio in primary education (%)	-	-	84	84	-
Adult literacy rate (% ages 15 and above)	-	-	-	41	-
Ratio of girls to boys in primary, secondary education	102	104	106	106	-
Immunization, measles (% of children 12-23 months)	76	76	77	77	77
Prevalence of child malnutrition (% of children under 5)	48	52	-	-	48
Maternal mortality ratio (per 100,000 live births)	380	-	-	-	-
Births attended by skilled health personnel (%)	12	12	14	14	13
Population with sustainable access to an improved water source (%)	-	-	75	-	-
Population with access to improved sanitation (%)	-	-	48	-	-

Figure 4: Debt Service vs Health and Education Spending for 2002/2003



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