

**Deadly Delays:  
How IMF and World Bank Economic Conditions Undermine Debt Cancellation**

**EXECUTIVE SUMMARY**

The agreement reached by President Bush and other world leaders this summer to cancel the debts of 18 countries (including 14 in Africa) to the International Monetary Fund (IMF), World Bank, and African Development Bank represents an important and precedent-setting step towards addressing the debt crisis faced by impoverished countries.<sup>1</sup> The agreement would allow up to 38 countries to eventually qualify for debt cancellation. However, for any *additional* countries to become eligible for cancellation, they must comply with a series of harmful economic policy reforms mandated by the IMF and World Bank. This policy brief examines these one-size fits all economic policies in four impoverished countries in Africa and Latin America. We find that IMF and World Bank policy prescriptions and the delays they cause for debt cancellation cost lives, and should be abandoned.

The deal reached by (Group of 8) G-8 leaders this summer is to be implemented under the framework of the Heavily Indebted Poor Countries (HIPC) Initiative of the IMF and World Bank. In order to advance to the final stage or “completion point” in the Initiative in which 100% debt stock cancellation is possible, countries must comply with IMF and World Bank economic policies including Poverty Reduction Strategy Papers (PRSPs) and other IMF and World Bank loan instruments.

The economic policy reforms required by the PRSPs and other loan instruments include privatization of government-run services and other entities, increased trade liberalization, and budgetary spending restrictions. Such policies have not been shown to increase per capita income growth or reduce poverty over the last twenty-five years in which they have been carried out throughout Africa and Latin America.<sup>2</sup> As a result, donors and international financial institutions (IFIs) are beginning to take a second look at the conditions that are tied to aid and debt relief. The UK, for example, has taken a position that future aid will not be “conditional on specific policy decisions by partner governments” including privatization or trade liberalization.<sup>3</sup>

This policy brief provides four case studies of the problematic policies that countries are required to implement in order to receive multilateral debt cancellation. Two of the countries examined by this study, **Nicaragua** and **Zambia**, have already implemented the required reforms to reach HIPC “completion point” and should therefore obtain debt cancellation under the G-8 debt deal in 2006. Their stories offer lessons for other countries. The other two, **Cameroon** and **Malawi**, have remained at “decision point” since 2000, and must undertake additional reforms to reach completion point in the HIPC Initiative. They are facing deadly delays. We call the delays deadly because while countries like Cameroon and Malawi are held up from receiving debt cancellation, people in these countries are dying because of lack of access to health care, to HIV/AIDS drugs, and to clean water. UNICEF estimates that in 2003 alone 240,000 children were orphaned in Cameroon due to their parents dying of HIV/AIDS.<sup>4</sup>

In **Nicaragua**, the government was directed by the IMF and World Bank to privatize electricity which resulted in the tripling of prices and decreased access for the poor in a country where only half the population had electricity to begin with. **Zambia**'s health and education programs were compromised by the IMF's macroeconomic policies which focus on maintaining low inflation

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and strict budget ceilings, preventing the government from spending the necessary amount to fund schools or HIV/AIDS programs. **Cameroon** is currently under pressure to privatize its water system to qualify for full debt cancellation, despite evidence from many other countries that water privatization leads to increased costs and decreased access especially for the poor. In **Malawi**, the country's food crisis has been exacerbated by a combination of IMF fiscal policy and restructuring of the agricultural sector. These four case studies are not isolated instances but are reflective of the experience of each country in the HIPC program.

**It is critical that resources released by debt cancellation reach those who need it most. As a result Jubilee USA Network works closely with partner organizations in indebted countries to assure accountability and transparency. But while we support accountability and transparency, we do not support the imposition of economic conditions on impoverished countries by the IMF and World Bank as a condition of debt cancellation.**

We call on the US government, along with the IMF and World Bank, to provide 100% cancellation of the debts of all impoverished countries without requiring those countries to implement harmful economic conditions such as privatization of essential services and restrictive social sector spending. Especially for impoverished countries like Cameroon and Malawi, delays to debt cancellation cost lives.

***Total cancellation of the debt of 14 African countries is an important step. We must ensure that the effects of this initiative are not undermined by conditionalities. We must also ensure that the principle of debt reduction for all African countries is firmly laid down, since it is all African countries that are crushed, under similar conditions, by this debt.***

– Alpha Oumar Konaré, chairperson,  
African Union Commission, July 2005

**For full report see: [www.jubileeusa.org](http://www.jubileeusa.org).**

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<sup>1</sup>Jubilee USA Network, "First Step on A Long Journey: Putting the G-8 Debt Deal into Perspective," June 2005, for a more comprehensive analysis of positive elements and shortcomings of the G-8 debt agreement and additional recommendations for action. Available at [www.jubileeusa.org](http://www.jubileeusa.org). This brief focuses specifically on economic policy conditions.

<sup>2</sup> See Mark Weisbrot and David Rosnick, Center for Economic and Policy Research, "The Scorecard on Development: 25 Years of Diminished Progress," September 2005 and Branko Milanovic, Carnegie Endowment for International Peace, "Why Did the Poorest Countries Fail to Catch Up?" October 2005.

<sup>3</sup> See UK Department for International Development, "Partnerships for poverty reduction: rethinking conditionality," March 2005, pp. 2,10; and World Bank Operations Policy and Country Services Department, "Review of World Bank Conditionality," September 2005.

<sup>4</sup> UNICEF, Cameroon At-A-Glance, 2005.