Center for Global Development

# CGD Brief

April 2002 Volume 1, Issue 1

## Delivering on Debt Relief

By Nancy Birdsall and Brian Deese *

**Summary:** Over the last several years, the United States and other major donor countries have supported a historic initiative to write down the official debts of a group of heavily indebted poor countries, or HIPCs. Donor countries had two primary goals in supporting debt relief: to reduce countries' debt burdens to levels that would allow them to achieve sustainable growth; and to promote a new way of assisting poor countries focused on home-grown poverty alleviation and human development. While the current "enhanced HIPC" program of debt relief is more ambitious than any previous initiative, it will fall short of meeting these goals. We propose expanding the HIPC program to include all low-income countries and increasing the resources dedicated to debt relief. Because debt relief will still only be a first step, we also recommend reforms of the current "aid architecture" that will make debt more predictably sustainable, make aid more efficient, and help recipient countries graduate from aid dependence.

### Debt and Aid: A Nine-Point Program

**To deliver on debt relief:**

1. Deepen debt relief in current HIPCs whose debt payments (debt service) still exceed 2 percent of GNP, to ensure that budgetary burdens remain manageable.
2. Expand eligibility for debt reduction to all low-income countries, including Indonesia, Nigeria, and Pakistan.
3 Safeguard countries for ten years – through a contingency facility in the IMF – against a return to unsustainable debt levels caused by circumstances beyond their control (such as drought, floods, other natural disasters, or a collapse of export prices).

**To finance these proposals:**

4. Mobilize more IMF gold for debt reduction – about $14 billion to expand HIPC eligibility and safeguard countries.
5. Increase foreign aid budgets (official development assistance) by 8 percent a year over ten years to write down mostly uncollectible bilateral debt – with a paper value of about $50 billion.
6. Increase the interest rates paid by upper middle-income countries on loans from the World Bank and other multilateral development banks by 0.5 percent per year, raising more than $4 billion over ten years.

**To reform the aid architecture:**

7. Increase donor efficiency and selectivity, abolishing tied aid, creating a competitive, quasi-market with performance-based allocation of donor funds, and offering grants as well as loans.
8. Increase donor accountability – for example, by providing block grants to recipient countries to monitor and evaluate donor performance.
9. Simplify HIPC procedures, shifting the requirement that countries prepare and commit to a poverty-reduction strategy from a precondition for canceling debt to a precondition for any major aid program managed by the government.

* This Brief was prepared by Nancy Birdsall and Brian Deese. It is based on a new book, ***Delivering on Debt Relief: From IMF Gold to a New Aid Architecture***, by Nancy Birdsall and John Williamson, with Brian Deese, co-published by the Center for Global Development and the Institute for International Economics.

During the past several years, the United States and other major donors have supported a historic initiative to write down the official debts of a group of heavily indebted poor countries, or HIPCs (see box 1). This unexpected decision to cancel debt was spurred by political pressure from Jubilee 2000, a worldwide citizens' movement supported by the pop star Bono, Pope John Paul II, and millions of ordinary churchgoing people in Europe and the United States. Jubilee campaigners argued convincingly that the debts owed by developing countries to rich institutions like the International Monetary Fund (IMF) and World Bank and to the governments of industrial countries were an unjust burden on poor people, who were paying obligations mostly assumed by corrupt past leaders. Advocates also argued that debt was undermining the ability of even the most reformist, well-intentioned governments to provide minimal social services to their citizens.

Donor countries had another reason to swallow hard, organize, and cancel some of the debt owed to them by the world's poorest countries. Two decades of official lending at cheap rates had failed to catalyze the increased growth and new economic activities needed to finance the resulting debt. (See box 2 for a discussion of why some loans failed to help.) Donors were locked into "defensive lending," endless rounds of debt rescheduling and new grants and loans to help poor countries pay back old loans.

In this brief, we argue that it makes sense for the donor community to go much farther than it already has in reducing poor countries' debt. Canceling uncollectible debt is a more efficient way to help the poor than just giving more foreign aid. It clears the way for donors to improve their own performance—to provide new aid only when they are reasonably sure it won't be wasted or stolen.

We offer here a nine-point reform package with additional debt relief as its centerpiece. In the first two parts of this package, we propose several ways to strengthen debt relief and to finance these proposals.

But more debt reduction should only be the first step in a much larger project: to change the perverse political and bureaucratic incentives that prompted donors and creditors to make the loans that led to unmanageable, unsustainable debt. So we conclude our nine-point package with three proposals for a new "aid architecture." Our goal is to direct more aid to poor countries with honest and sensible leaders who will make the huge investments—in health, education, roads, and good government—that are the preconditions for market-driven, sustainable, poverty-reducing growth.

But greater debt reduction will only put well-performing poor countries at the starting line for growth. Staying on track (and making progress toward achieving the Millennium Development Goals adopted by the international community in 2000, such as halving infant mortality and putting all children in primary school) will require not only better government performance in poor countries, but bigger foreign aid budgets in rich countries.

## Why Do More?

In the 26 countries to qualify for debt reduction under the HIPC initiative so far, there is evidence that governments are using their additional resources and budgetary flexibility to increase spending on health and education. The World Bank reports that about 40 percent of the estimated debt savings are being directed to education and 25 percent to health care, including expansion of HIV/AIDS prevention and education programs. Tanzania has ended fees for grade school, and Benin has ended fees in rural areas. Honduras is planning to offer three more years of free schooling, through the ninth grade. With debt savings, Uganda has achieved virtually universal primary school enrollment, and has explicit plans to hire more teachers and provide more textbooks. Mali, Mozambique, and Senegal plan to increase spending on HIV/AIDS prevention.

### 1: WHAT IS HIPC?

The Enhanced HIPC Initiative is a two-step process that provides debt relief from bilateral and multilateral creditors to qualified poor and indebted countries. There are 42 eligible countries (34 in Africa), and 26 have qualified so far. First, countries get debt service relief at what is called a "decision point," when they have demonstrated adequate adherence to a traditional IMF program and progress toward constructing a national poverty reduction strategy. Second, at "completion point" countries get debt stock relief once they have completed and committed to a comprehensive Poverty Reduction Strategy Paper (PRSP).

**What Do The HIPCs Have in Common?**

- HIPCs have been over-indebted for at least two decades: the ratio of their debts to benchmarks like exports and GNP was already higher in the 1980s than in most other developing countries.
- HIPC countries are poor: because their economies have not grown much, their peoples are generally as poor today as they were decades ago.
- HIPC countries have been major recipients of official development assistance: average net transfers (gross transfers minus debt service paid by them) to the HIPCs have been about 10 percent of their GNP in the 1990s, compared to about 2 percent for all other developing countries.

But if the goal of debt reduction is sustainable growth and poverty reduction in the world's poorest countries, the current Enhanced HIPC Initiative falls short on two counts. It does not guarantee that HIPC countries will escape from the dual traps of debt and poverty.

### Uncertain Escape from the Debt Trap

The Enhanced HIPC Initiative does not provide a credible guarantee that these countries will escape their current debt trap, in which the burden of existing debt makes managing public budgets impossible and discourages private investment. Under the HIPC initiative, the IMF and the World Bank primarily use the debt/export ratio of a poor country to measure debt sustainability. Current IMF-World Bank projections of debt sustainability rely on three assumptions that may not hold:

- **Assumption 1: Exports will increase.** In the coming decade, exports will need to grow at almost twice the rate of the 1990s if HIPC countries are to be able to service their debts. This will require the terms of trade for these countries to improve by 0.5 percent a year, though they deteriorated by 0.7 percent a year during the 1990s.

- **Assumption 2: Borrowing will decline.** Under the IMF-World Bank projections, new annual borrowing is projected to decline from 9.5 to 5.5 percent of HIPCs' GNP, and grants are projected to double. But a few HIPC countries, such as Ethiopia and Sierra Leone, are already borrowing at higher than expected rates – including from the World Bank!

- **Assumption 3: Bad surprises won't matter much.** At one time or another, most HIPCs have been victims of droughts, floods, commodity price collapses, infectious disease emergencies, and costly civil conflicts. All these affect export earnings, at least for the short term, and usually require emergency borrowing.

### Uncertain Escape from the Poverty Trap

Nor does the Enhanced HIPC Initiative provide the resources countries need to overcome their crippling disadvantages. Past conflicts, ethnic tensions, health care crises, weak property rights, low levels of human capital, and a continuing inability to compete in the global economy because of dependence on primary commodity exports can all combine to create a poverty trap.

Success in escaping poverty traps will depend mostly on developing countries doing their part with adequate governance and sound tax and budget policies. But success also requires that donors complement developing country efforts with more foreign aid than the current estimated $56 billion per year. How much more is not clear. The World Bank has estimated that, over the next decade, donors will need to provide $50 billion more in development aid each year to achieve the Millennium Development Goals, assuming developing countries embrace good policies.

## So, Why Not Cancel All HIPC Debt?

If the current HIPC plan will not allow countries to safely escape debt and poverty, why not write off all the debt of the poorest countries?

One reason is that debt cancellation, once agreed, cannot be taken back—even if there is significant deterioration in the willingness or capacity of recipient governments to maintain good policies. Complete debt relief for some countries would also probably end up diverting donor resources from other equally poor countries that never accumulated high debt in the first place, such as

### 2: ACKNOWLEDGING PAST PROBLEMS

It is too simple to say, as many critics do, that most aid has been ineffective. But the record of aid in reducing poverty is mixed. There are several reasons why this is so, and some of them are the fault of donor countries.

**Many of the poorest countries are stuck in poverty traps.** Many HIPCs are vulnerable to adverse and largely unpredictable shocks such as sudden collapses of export commodity prices, climatic disasters, and civil conflicts. These vulnerabilities make it difficult to build the health and educational systems and the infrastructure that are prerequisites for economic development.

**Aid has been given to some countries with failed leadership.** Some past leaders in HIPC countries contributed to civil conflict, governed poorly or corruptly, promoted misguided policies, and neglected social sectors.

**Donor and lender behavior was not always prudent.** Examples of donor missteps include lending to countries for strategic purposes despite clearly failed leadership; offering credits to promote exports that required technology inappropriate for the recipient country; and pushing loans to satisfy lending targets even when recipient government programs were not credible and projects were of dubious value.

In all of these circumstances, debt escalates but the ability to service it does not. This brief makes several recommendations about how to prevent these mistakes in the future, thereby avoiding the worst inefficiencies of aid and a new accumulation of unsustainable debt.

Bangladesh or India. (India, for example, now receives a paltry 0.1 percent of its GNP in aid, compared to 10 percent for many HIPCs. This gap in relative aid inflows means that some HIPC countries receive 100 times more aid per capita than does India!) One idea advocated by some debt campaigners – to have the World Bank draw on its reserves to write off all the debts owed it by the HIPCs – would almost surely have this effect. This is because the costs would be passed on in the form of higher interest rates to non-HIPC borrowers, such as Guatemala, Morocco, Peru, Sri Lanka, and Vietnam.

But it would make sense to use aid resources to finance more debt relief than is contemplated under the current HIPC initiative – rather than to simply increase aid transfers. Why?

## Why More Debt Relief Instead of Just New Aid?

Debt relief is more efficient than increased aid flows for three reasons.

### First, Debt Relief Limits the Harm Caused by Donor Bad Habits And Inefficiencies

**Debt relief unties aid.** When recipient countries are required to purchase goods or services from donor country contractors and suppliers, aid is said to be "tied." The practice of tying aid reduces its value by an estimated 15 to 30 percent. Donors have recently pledged to end this widespread practice, but they have exempted food aid and technical assistance. Technical assistance (mostly advice and training services provided by consultants) makes up as much as 25 percent of total development assistance. In a country like Mozambique, U.S. or German consultants working on contracts paid for with U.S. or German aid funds can cost 10 to 20 times as much as their counterparts from Brazil or South Africa. Assuming that poor countries would receive twice as much value for each aid dollar spent in a truly competitive world market for technical assistance, and adding to that the cost of continuing to tie food aid, we estimate that donors will waste some $7 billion per year in aid resources, even after the OECD countries have implemented their tied aid pledge. In contrast to new aid disbursements, which may perpetuate this wasteful practice, debt relief cannot be "tied;" it provides direct budget support to developing country governments.

**Debt reduction liberates donors to be more selective.** Bilateral donors have a poor record of targeting aid on countries where it is most likely to be used effectively. Strategic and commercial pressures have traditionally distorted country allocations of aid, at least from the point of view of effectiveness in reducing poverty and promoting growth. Even in the 1990s, after the Cold War had ended, donors did not become more selective. Poor countries with high debt service obligations to the IMF and World Bank continued to obtain substantial grants and new loans (much of it to sustain their debt repayments), regardless of how poorly they were performing. (The happy exception is the World Bank. Its highly concessional lending became more selective in the 1990s under a new system of performance-based allocation.)

In a peculiar sense, this back-door financing was enlightened donor behavior, because any poor country failing to service its multilateral debt would be cut off from the trade and other credits that are essential to private businesses and farms. But it created a debt trap for donors as well as recipients, and made aid transfers less effective, because they often supported incompetent or wasteful regimes.

With sufficient debt reduction for the poorest countries, bilateral donors would no longer feel compelled to cover unsustainable debt. Once poor countries had a reasonable, safeguarded ceiling on their debt, donors could be more selective, channeling new aid to countries with sound policies and institutions. And because selectivity would also increase aid efficiency, it might promote public support for higher aid budgets.

### Second, Debt Relief Allows For Poor Country Ownership Of Development Strategies

**Debt relief reduces the huge transaction costs of conventional foreign aid programs.** Acquiring and managing aid has high transaction costs for recipient countries. Talented government officials in aid-dependent countries must meet daily with local and visiting missions of the World Bank, the IMF, the European Union, UNDP, USAID, and other bilateral aid agencies, as well as with representatives of nongovernmental organizations. All of these aid institutions have different, even competing approaches to health, environment, or financial sector reform, and each has different procurement, disbursement, and monitoring rules and customs. In contrast, debt relief has the peculiar advantage of being like cash—it comes without significant transaction costs. This allows recipient countries to streamline the management of aid resources and thereby to exercise greater control and ownership over their use.

**Debt relief provides flexible budget support and makes governments accountable to citizens.** Tanzania received about $700 million in new donor funding in 1999, and owed $230 million that year in debt service, resulting in a net inflow of aid. But most of the new aid money was linked to specific projects or priorities favored by donors, so the Tanzanian government had to set aside $230 million of its limited tax revenues for debt repayment. (Typical HIPC countries spend about 20 percent of tax revenue to repay existing debts.) Donors prefer supporting projects to providing cash for budget support because project outputs can be monitored and measured, and projects often provide contracts for donor country consultants and suppliers. So even when countries have positive net transfers of aid (new aid minus payments on old debt), their ability to direct resources where it might be most effective can be limited.

**Debt reduction allows governments to spend precious tax revenue on their own budget priorities, instead of on debt repayments.** This makes governments more accountable to their citizens. A shift of some aid resources from new projects to debt relief would give a boost to countries struggling to strengthen honest and democratic governance.

#### Third, Debt Relief Can Foster Private Investment

Debt reduction is irreversible and can rekindle private investment. A large amount of debt, and perpetual dependence on the beneficence of donors, creates uncertainty about a government's finances and its ability to deliver macroeconomic stability. Investors worry about heavy future tax burdens imposed to sustain or write down public debt. Entrepreneurial energy is directed into less risky projects promising quicker returns – such as retailing, small construction, and marketing – rather than into major new businesses. Debt reduction that provides a reasonable guarantee of debt sustainability can restore investor confidence.

# A Nine-Point Plan for Debt and Aid

The HIPC program has institutionalized a new approach to development assistance, linking debt relief and new aid not only or primarily to traditional macroeconomic conditions, but also to the development of coherent strategies for reducing poverty. That has made debt reduction – as debt campaigners, debtor countries, and donors all have pointed out – a critical first step in the rebuilding of more equitable and democratic societies. The nine measures proposed below will build on this momentum, helping ensure that debtor countries escape from unsustainable debt and start down the road toward meaningful poverty alleviation and human development.

## To Deliver on Debt Relief

#### 1. Deepen Debt Relief

The HIPC debt/export measure of debt sustainability has little to do with the needs of poor people. If debtor countries and donors want to prevent the diversion of resources from basic social investments to debt payments, the appropriate measure of debt sustainability should be the ratio of debt service to GNP.

We recommend that debt relief be deepened to cover all debt payments that exceed 2 percent of a borrowing countr's GNP. (Most HIPCs collect about 20 percent of their GNP in tax revenue, and a reasonable share of revenue to spend on debt service is 10 percent; 10 percent of 20 percent implies spending 2 percent of GNP on debt service.) A 2 percent debt service/GNP target would be sustainable for most countries, because it would not require unusual sacrifices by citizens.

#### 2. Expand HIPC Eligibility

Some very poor countries with substantial official debt burdens are not formally eligible for the HIPC initiative—for the odd reason that they have (or had) good enough credit to gain some access to private capital markets. In some cases (Indonesia, for example), governments could borrow privately because they conducted their financial affairs prudently. The official debt of Indonesia, Nigeria, Pakistan, and another 16 poor countries is undermining their ability to get back on a growth track. If and when they meet the basic conditions of an IMF program, reducing their debt stock to a sustainable level would cost between about $20 billion and $70 billion, depending largely on whether Indonesia is included.

#### 3. Safeguard Against External Shocks

The assumptions behind the official projections of debt sustainability for the HIPCs are optimistic. The fact is that low-income countries are particularly susceptible to natural disasters and sharp international price changes that shrink export earnings and increase import costs, threatening debt sustainability. Current HIPC arrangements allow in principle for some increase in debt relief in these circumstances, but only during the period between decision and completion points (box 1).

We propose that countries be safeguarded for ten years against such shocks. Under our plan, if a shock caused a country's debt service/GNP ratio to rise above 2 percent, that portion of the debt service that exceeded the 2 percent threshold would be financed externally. This would reassure local as well as foreign investors that the public sector's debt burden would remain manageable, as long as overall economic policies remained reasonably sound. To administer and finance this safeguard, we propose that a contingency facility be established in the IMF, which has experience operating a facility like this one.

## To Finance These Proposals

Our proposals for deepening and extending debt relief carry a one-time cost of between $35 and $85 billion (the latter if Indonesia is included), plus the cost of the contingency facility, which we roughly estimate at $5 billion. This sum is not large relative to total annual aid flows, which are roughly $56 billion. And a considerable part of this "cost" arises only in an accounting sense: It is the cost to donors of showing on their books debt that will not be paid, and does not entail any new budgetary outlays. In the United States, for example, a good deal of bilateral debt owed by poor countries was accounted for as a loss throughout the 1990s, so actual appropriations for debt reduction in 2000 were much smaller than the face value of the reduced debt.

We propose financing additional debt relief in three ways.

**4. Mobilize IMF Gold**
Unlike the multilateral development banks, the IMF is in a position to finance its own role in an expanded debt relief effort by mobilizing a portion of its massive stock of undervalued gold. Mobilizing gold would reduce the IMF's reserves. In the case of commercial banks, reserves reassure depositors that their funds are safe. In the case of the IMF, reserves only reassure the central banks of the largest members. The IMF has already used an off-market gold transaction to mobilize 14 percent of its gold holdings ($4 billion), the interest from which helped finance the Fund's share of the first phase of HIPC relief. A similar transaction would enable the IMF to mobilize between $2 to 9 billion (the difference representing Indonesia) for deeper and broader debt relief. By mobilizing additional funds in this manner, the IMF could finance the proposed contingency facility, whose cost we estimate at $5 billion.

**5. Increase Official Development Assistance**
But the largest contribution to a deepening and broadening of debt relief must come from increased flows of assistance from bilateral donors. Some donors have already pledged a complete debt write-off for HIPC countries. It is estimated this will cost about $8 billion, which could go a long way toward bringing all HIPCs under our 2 percent debt service/GNP ratio. A subsequent real increase in official assistance of 8 percent a year over 10 years would easily generate more than $60 billion. This amount is much smaller than the increase in development aid many European governments have proposed.

**6. Increase Multilateral Bank Interest Rates to Upper-Middle Income Countries**
Although an inadvertent shift in the burden of HIPC relief to other low-income countries must be avoided, there is still a case for increasing the interest rates that the multilateral banks charge upper middle-income borrowers, such as Brazil, Mexico, and Turkey. Higher rates would encourage upper middle-income countries to graduate from the ranks of borrowers. Over time, some of these countries would become donors, acquiring increased influence in the international community. A 0.5 percent increase in the interest rate multilateral lenders charge upper-middle income borrowers might generate $400 million a year in earnings. These funds could be channeled through the World Bank's HIPC trust fund to support our proposals.

## A New Aid Architecture

Securing the benefits of greater aid reduction will require broader reform of the development aid business.

**7. Increase Donor Efficiency and Selectivity**
The first step in increasing donor efficiency and selectivity is to abolish tied aid. That implies expanding the scope of the current commitment – which only applies to goods – to technical assistance, and shifting from food aid to equivalent transfers in cash.

The problems of poor donor coordination and lack of selectivity require us to rethink the way aid is delivered. In place of the current non-competitive, project-based aid system, donors should support the establishment of a quasi-market-based approach. In such a system, recipient countries would request block grants or highly subsidized loans to support homegrown development strategies, and donor countries would release their contributions as unrestricted cash to countries, in amounts, and for periods of their choosing. Borrowing countries would design their own development strategies, programs, and projects – in close consultation with their own citizens, but also in a dialogue with donors. The level of financing provided by each donor would depend on its assessment both of a recipient country's strategy and of the country's ability to implement the strategy and effectively monitor progress and expenditures. Donors' views would be made known to the country during the dialogue leading up to the financing decision, but earmarking for specific projects or programs would not be permitted. This would create a "common pool" of development assistance for each poor country.

The quasi-market common pool approach implies a switch from the hopeless goal of donor coordination toward healthy competition among donors and among aid recipients. It would place accountability for selectivity with donors, and accountability for the success of the development programs themselves squarely where it belongs, with recipient country governments.

A final way to increase donor efficiency is to offer grants as well as loans through the World Bank's soft-lending arm, the International Development Association (IDA). In a speech at the World Bank on 17 July 2001, President Bush suggested that IDA should convert about half of its disbursements from loans to grants. Endorsement of this proposal by all the shareholders of the World Bank would make explicit the recognition that some development priorities are simply not suited for loans in countries where institutions are weak, disease

**OUR PROPOSALS** (in billions of US dollars)

| Cost | (w/Indonesia) | (w/out Indonesia) |
|---|---|---|
| Deepening | $10 | $10 |
| Extending | $70 | $20 |
| Contingency | ($5) | ($5) |
| | $85 bn | $35 bn |

| Financing | (w/Indonesia) | (w/out Indonesia) |
|---|---|---|
| IMF Gold | about $14 | $7 |
| Donor ODA* | $67 | $24 |
| Multi. Charges | $4 | $4 |
| | $85 bn | $35 bn |

* Note that $8 billion has already been pledged in additional bilateral cancellation for the HIPCs.

burdens are high, geography is challenging, and civil conflicts and other shocks frequently undermine progress. Helping committed countries lay the groundwork for sustained economic growth will require large resource transfers for a decade and more.

### 8. Increase Donor Accountability

We have emphasized that donors and official creditors must take some responsibility for the build-up of unsustainable debt in the world's poorest countries. With the HIPC initiative they are taking some financial responsibility. But new procedures are needed to encourage donor accountability.

First, we recommend modest additions to the OECD Development Assistance Committee's (DAC) reporting and accounting, most importantly ending the practice of recording as ODA uncollectible interest arrears and cancellation of export credits. This would allow development activists to better monitor official creditor lending and overall donor commitments. Second, we suggest that donor governments, the leading shareholders in the World Bank and the regional development banks, instruct those institutions to encourage and be prepared to finance any initiative of borrowing governments to seek independent credit counseling or to monitor and evaluate donor performance within their countries. Third, the DAC, in concert with developing countries, might add to its mandate the development of principles on appropriate donor conduct and mechanisms for monitoring how well donors measure up to those principles. Finally, just as aid recipients can now be held accountable for their performance under the Poverty Reduction Strategy Paper (PRSP) process, a parallel mechanism could be established that supports recipient country monitoring of donor performance.

### 9. Simplify HIPC Procedures

The current HIPC initiative makes countries jump through multiple hoops before full debt stock relief is granted (see box 1). We recommend streamlining the process.

Under the current HIPC procedure, debt stock reduction comes not at decision point, but only at completion point, when a country has developed a full-blown PRSP. If donors were unlikely ever again to have the leverage needed to persuade these countries to go through the PRSP process, it would make sense to delay debt stock reduction, in the interest of maintaining that leverage. But in fact there is no need for such leverage at all because the HIPCs are all heavily aid-dependent and will remain so even after the deeper debt reduction recommended in this brief. If the donors were to announce that after HIPC debt relief had been provided, they would continue to require a PRSP as a condition for new aid commitments, they would have ample means to ensure that the PRSP process continued to be taken seriously.

Furthermore, the pressure to bring HIPCs to completion point is reportedly already leading to a rush to complete PRSPs, undermining the very values of participation and ownership the PRSP process is meant to encourage. Finally, the requirement that certain "standards" be met in a PRSP before debt stock relief is provided ignores the fact that the debt to be cancelled is fundamentally uncollectible – and thus seems to liberate donors and official creditors from recognizing and reforming the procedures or incentives that led to the problem in the first place.

Debt relief is only a small step in the much larger project of reducing worldwide poverty. But by substantially – and efficiently – increasing the resources available for development, and by bringing the world's richest and poorest countries together in a new relationship of mutual accountability, debt relief can jump-start reform of the entire aid architecture.

This Brief was prepared by Nancy Birdsall and Brian Deese. It is based on a new book, ***Delivering on Debt Relief: From IMF Gold to a New Aid Architecture***, by Nancy Birdsall and John Williamson, with Brian Deese, co-published by the Center for Global Development and the Institute for International Economics.

For ordering information, please visit www.cgdev.org.

Nancy Birdsall is President of the Center for Global Development. Prior to launching CGD, Ms. Birdsall served for three years as Senior Associate and Director of the Economic Reform Project at the Carnegie Endowment for International Peace. From 1993 to 1998, Ms. Birdsall was Executive Vice-President of the Inter-American Development Bank, before which she spent 14 years in research, policy, and management positions at the World Bank, most recently as Director of the Policy Research Department.

Ms. Birdsall is the author, co-author, or editor of more than a dozen books and monographs, including, most recently, Population Matters: Demographic Change, Economic Growth and Poverty in the Developing World, Washington Contentious: Economic Policies for Social Equity in Latin America, and New Markets, New Opportunities? Economic and Social Mobility in a Changing World. Ms. Birdsall holds a Ph.D. in economics from Yale University and an M.A. in international relations from the Johns Hopkins School of Advanced International Studies.

Brian Deese is a Research Assistant with the Center for Global Development. Before joining CGD, he was a Junior Fellow at the Carnegie Endowment for International Peace. Deese contributed significantly to Delivering on Debt Relief: From IMF Gold to a New Aid Architecture, the book on which this brief is based. Deese holds a B.A. from Middlebury College.

For research and other background on aid effectiveness and debt issues, go to www.cgdev.org

Center for Global Development
1776 Mass Ave., NW
Suite 301
Washington, D.C. 20036

www.cgdev.org

# CGD Brief

## Delivering on Debt Relief

Nancy Birdsall and Brian Deese

April 2002 Volume 1, Issue 1

The **Center** for **Global Development** is an independent, non-partisan, non-profit think tank dedicated to reducing global poverty and inequality through policy oriented research and active engagement on development issues with the policy community and the public. A principal focus of the Center's work is the policies of the United States and other industrial countries that affect development prospects in poor countries. The Center's **research** assesses the impact on poor people of globalization and of the policies of governments and multilateral institutions. In collaboration with civil society groups, the Center seeks to identify **policy alternatives** that will promote equitable growth and participatory development in low-income and transitional economies. The Center works with other institutions to improve **public understanding** in industrial countries of the economic, political, and strategic benefits of promoting improved living standards and governance in developing countries.