3 generation of foreign income through diversification of the economy and increased trade
4 reducing the active role of the state.

However, some people argue that these measures have made the situation worse.

The measures were sometimes divided into two main groups: the **stabilization measures**, short-term steps to limit any further deterioration of the economy (e.g. wage freeze, reduced subsidies on food, hea[illegible]; and adjustment measures, longer-term policies [illegible]iveness (tax reductions, export promoti[illegible] service, privatization and econom[illegible]

The Heavily Indebted Poor Countries (HIPC) initiative

The Heavily Indebted Poor Countries (HIPC) initiative, launched in 1996 by the International Monetary Fund (IMF) and the World Bank and endorsed by 180 governments, has two main objectives:

- to relieve certain low-income countries of their unsustainable debt to donors
- to promote reform and sound policies for growth, human development and poverty reduction.

Debt relief occurs in two steps:

- At the decision point the country gets debt **service relief** after having demonstrated adherence to an IMP programme and progress in developing a national poverty strategy.
- At the completion point the country gets debt **service relief** upon approval by the World Bank and the IMF. The country is entitled to at least 90% debt relief from bilateral and multilateral creditors to make debt levels sustainable.

"Debt service" is required over a given period for the repayment of interest and principal on a debt – monthly mortgage payments are a good example. "Stock relief" is the cancelling of specific debts; this achieves a reduction in debt service over the life of a loan.

Of the 42 countries participating in the initiative, 34 are in sub-Saharan Africa. None had a **purchasing power parity** (PPP) above $1,500/head in 2001, and all rank low on the HDI. Between 1990 and 2001 HIPCs grew by an average of just 0.5% a year. HIPCs have been overindebted for at least 30 years: by poor-country standards their ratios of debt to exports were already high in the 1980s. At the same time, HIPCs have received considerable official development assistance. Net transfers of such aid averaged about 10% of their GNP in the 1990s, compared with about 2% for all poor countries. To date 16 HIPCs have reached the decision point and eight have reached the completion point (Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania and Uganda).

Purchasing power parity (PPP) – the measure of average earnings in relation to local prices, i.e. how much you can buy for your money.

Expanding market access

Expanding market access is essential to help countries diversify and expand trade. Trade policies in rich countries remain highly discriminatory against developing country exports. Average OECD

tariffs on manufactured goods from developing countries are more than four times those on manufactured goods from other OECD (Organisation for Economic Cooperation & Development) countries. Moreover, agricultural subsidies in rich countries lead to unfair competition. Cotton farmers in Benin, Burkina Faso, Chad, Mali and Togo have improved productivity and achieved lower production costs than their richer country competitors. Still, they can barely compete. Rich country agricultural subsidies total more than $300 billion a year, nearly six times official development assistance.

To research

Visit www.imf.org for a fact sheet on debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, and for facts on Mozambique and debt service.

MEDCs should set targets to:

- increase official development assistance to fill financing gaps (estimated to be at least $50 billion)
- remove tariffs and quotas on agricultural products, textiles and clothing exported by developing countries
- remove subsidies on agricultural exports from developing countries
- agree and finance, for HIPCs, a compensatory financing facility for external shocks, including collapses in commodity prices
- agree and finance deeper debt reduction for HIPCs that have reached their completion points, to ensure sustainability.

Be a critical thinker

Should the debt be cancelled?

There is debate about whether or not to cancel the debt of the poorest African countries. In 2000 a coalition of groups under the Jubilee 2000 banner called on the G7 summit meeting to cancel the debt. As a result, a number of countries received full or partial debt relief. These countries were then able to use the money saved to improve conditions for their people; for example Tanzania introduced free schooling, built more schools and employed more teachers.

In 2005 the Make Poverty History campaign was instrumental in persuading the G8 summit meeting to alleviate the burden of debt by further reducing repayment obligations. The campaign continues to call for extending debt cancellation to all countries that otherwise are unable to meet basic human needs. In 2006 a new agreement called the Multilateral Debt Reduction Initiative (MDRI) came into force, writing off the entire $40 billion debt owed by 18 HIPCs to the World Bank, the IMF and the ADF. The annual saving in debt payments amounts to just over $1 billion. However, countries outside Africa are not included in this agreement.

Rich countries have now promised to cancel the debt of 42 countries and give an extra £5 million of aid by 2050. Critics of debt relief state that it does not help the poor, that it does not help countries that do not get into debt, and that it encourages countries to overspend.

The achievements of developing countries

It can be easy to forget about the achievements of the developing world. For example:

- average real incomes in the poor world have more than doubled in the past 40 years, despite population growth
- under-five death rates have been cut by 50% or more in every region over the past 40 years
- average life expectancy has risen by more than a third in every region since 1950
- the percentage of people with access to safe water has risen from about 10% to 60% in rural areas of the developing world since 1975.

To do:

a Briefly explain the HIPC initiative.
b Study Figure 2.24 on page 49.
 i In which continent are most of the HIPC countries found?
 ii Name a South American country that qualifies for HIPC debt relief.
 iii Name an Asian country that is eligible for debt relief but has not yet made the necessary conditions.