EURODAD's campaign on multilateral debt: the 1996 HIPC debt initiative and beyond

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Introduction

'Multilateral debt is not a widespread problem for Severely Indebted Low Income Countries', wrote the World Bank in September 1994.[1] Ten months later, an internal World Bank document called for the establishment of a 'Multilateral Debt Facility' to reduce the multilateral debt burden of 24 likely candidates.[2] This would be part of a co-ordinated effort of bilateral, multilateral, and commercial creditors to bring the debt burden of developing countries to a sustainable level. Six months on, the IMF joined the World Bank in proposals to resolve the debt problem of Heavily Indebted Poor Countries (HIPCs), including the multilateral debt problem.[3]

In other words the World Bank, and to a degree the IMF, made a U-turn. Having initially denied the multilateral debt problem, they slowly started to recognise it and then came up with a proposal to deal with it. Although imperfect, this proposal reflects to some extent the demands made by NGOs which, together with progressive forces within the Bank and certain creditor countries, have played a crucial role in this process. While the multilateral debt problem is now too great to ignore, it is the persistent pressure of these players that has been responsible for the enormous progress made by the International Financial Institutions (IFIs).

This article analyses this progress and focuses on the contribution of the European Network on Debt and Development (EURODAD).[4] It must be emphasised that the major strength of EURODAD's work derives from its close links with NGOs inside and outside its network. Specifically, without the support and co-operation of Oxfam International's Advocacy

Office and the Center of Concern (both based in Washington), EURODAD's activities would have had less impact.

Background to the multilateral debt campaign

Multilateral debt is an increasing part of the overall debt problem of developing countries, comprising 30 per cent of the total long-term debt stock of HIPCs in 1994. Multilateral creditors received half of these countries' debt repayments. This debt is a major impediment to social and economic development. It also has indirect negative consequences, since the preferred-creditor status of the IFIs means that multilateral debt is serviced prior to other debt.[5] Consequently, arrears to (mainly) bilateral creditors have been accumulating. In addition, aid resources intended for social development and poverty alleviation are being diverted to service the multilateral debt.

Stimulated by discussions with debt experts such as Percy Mistry and Matthey Martin, EURODAD began work on advocating a comprehensive and concerted approach to the problem. It entails taking all aspects of the debt problem into account — commercial, bilateral, and multilateral debt — encouraging all major players to take responsible action.

EURODAD's first work on multilateral debt is represented in its campaigning document 'Target 1992'. After a slow start, the December 1993 seminar on multilateral debt organised by EURODAD and the Dutch NGO Novib acted as a major incentive for further discussion on the issue of multilateral debt. Early the following year, EURODAD and its colleagues formulated its 'Appeal for a just solution of the multilateral debt problem', which was signed by several hundreds of NGOs and used in lobbying. However, some major European NGOs were reluctant to sign. Evidently, more discussion on a specific or sophisticated approach (particularly on the credit-rating problem) was needed. At their July 1994 conference on multilateral debt — two months after an official conference on the issue organised by the governments of Sweden and Switzerland — NGOs tried to resolve their differences and to agree a policy based upon equal treatment of all creditors. NGOs agreed to accept the preferred, but not the exempt, creditor status of the IFIs.[6]

On 3 October 1994, the multilateral debt campaign was launched officially. Over the next two years, hundreds of NGOs worldwide became involved. The interest of the NGO community in the issue is reflected in the growth of EURODAD's multilateral debt network, which by the end of 1996 comprised over 150 NGOs, NGO networks, academics, debt experts, representatives from the UN, UNCTAD, UNDP, the Non-Aligned

Movement (NAM), the Commonwealth Secretariat, and other interested institutions and people, on both the debtors' and the creditors' side.

EURODAD's main function in the campaign was, and still is, analysing major developments, sharing information, stimulating discussion, and giving strategic guidance. In terms of lobbying and press work, the other two main elements of the campaign, EURODAD played a role at certain key moments in relation to specific fora and events such as G7 meetings, the Spring and Annual Meetings of World Bank and IMF, and their Interim and Development Committees.

Towards a recognition of the multilateral debt problem

In 1995, after a long period of consistently denying the existence of a multilateral debt problem, the World Bank and the IMF slowly started to change their position. The first signs of this change were their joint papers of February and March 1995. According to the first paper, about eight countries might experience problems in servicing their multilateral debt obligations.[7] This projection was based on the assumption of an annual nominal export growth rate of six per cent and an annual nominal three per cent growth rate for new concessional lending. It was also assumed that a multilateral debt-service to export ratio of 10 to 12 per cent would be unsustainable.

EURODAD argued that these assumptions were far too optimistic. In letters to Executive Directors of the World Bank and the IMF, as well as to various members of their staff, EURODAD pointed out that export growth projections were highly unrealistic, that a constant real level of new concessional loans was equally unlikely, and that the debt-service ratios were far too high. Further, EURODAD stressed that the debt problem was underestimated, because several countries were excluded from the analysis, including four countries in arrears to the IMF. Finally, the analysis assumed the full application of Naples Terms[8] and similar reductions of commercial debt, while there was no indication that such reductions would take place. EURODAD's concerns were shared by many other NGOs.[9]

Thanks to the pressure exerted by EURODAD and others, as well as the progressive attitude of some Executive Directors and Development Ministry officials, the staff of the World Bank and the IMF were asked by their Boards to prepare a second paper. At a World Bank Board meeting in March 1995, the Dutch, British, Canadian, US, Swiss, French, and Swedish governments were generally positive about the need to do something about the debt problem, including multilateral debt,

emphasising that the World Bank report was too optimistic about export growth and resource flows. The Italian, Australian, and Japanese governments, however, were still unwilling to take any action.

The second joint paper showed that changing the assumptions regarding export growth and the amounts of new concessional lending significantly altered the projections.[10] For example, if three per cent nominal export growth was assumed, there would be not eight but 23 problem countries. Nevertheless, the paper's conclusion did not differ from the earlier one: provided that sufficient new and concessional loans were made, multilateral debt would not be a widespread problem.

As it gradually dawned upon the IFIs that a multilateral debt problem *did* exist (at least for a few countries), they started to discuss options for dealing with it that went beyond existing mechanisms.[11] These included making the IMF's major structural adjustment lending instrument, the Enhanced Structural Adjustment Facility (ESAF), permanent; and using gold sales for this purpose, softening the terms of lending of ESAF and IDA (International Development Assistance), and extending IDA's 'fifth dimension'.[12]

As EURODAD pointed out, the problem with the two IDA options was that they would divert these resources from aid purposes to debt relief. Moreover, EURODAD stressed that gold sales should be used not to replenish the ESAF but to relieve the debt burden. It pressed the IFIs to come up with more realistic solutions and asked for genuine burden-sharing: the IFIs need not give up their preferred creditor status, but they should abandon their 'exempt' creditor status and reduce the multilateral debt burden of the poorest, most indebted countries. This could be financed by an optimal policy mix which would aim to protect the financial standing of IMF gold sales and other IMF reserves, the special SDR allocation for debt relief, and World Bank reserves and profits. It was also stressed that resources should be *additional*: debt relief should not divert aid money.

During the Spring Meetings of the World Bank and the IMF in April 1995, it became evident that there was some tension between them. While the Bank seemed to be open to NGOs' comments and ideas, the Fund stuck to its analysis and downplayed the multilateral debt problem to one of a 'small handful of countries'. In a letter sent to the G7 countries before their Halifax meeting in June 1995, EURODAD called for a comprehensive approach to the debt problem and stressed the flaws in the international debt strategy. EURODAD thus asked the G7 to increase Naples Terms from 67 per cent to 90-95 per cent, to urge the IFIs to reduce multilateral debt, and to delink debt relief from current (and in many respects failing) structural adjustment programmes.

This meeting was a small victory for the multilateral debt campaign. For the first time, the problem was explicitly acknowledged, with the G7 calling for a comprehensive and co-ordinated debt approach, asserting that:

> There is general agreement that measures have to be taken to ensure that the burden of multilateral debt does not impede the growth prospects for the poorest countries. Exit strategies need to be found for countries with particularly high levels of multilateral debt, but with good track records. The IMF and the World Bank should take the lead in developing a comprehensive multilateral approach to assist countries with multilateral debt and debt service ratio's above prudent levels in addressing their debt burdens, through the flexible implementation of existing instruments, and new mechanisms where necessary. Thought should be given to the better use of all existing IMF and World Bank resources.[13]

The promise of a genuine resolution of the multilateral debt problem

The G7 call for a comprehensive approach to the debt problem was picked up by the IFIs. Finally, the World Bank (and later the IMF) started to come up with solutions. In July 1995, a Special Task Force at the Bank prepared a proposal to create a Multilateral Debt Facility (MDF). James Wolfensohn, who had been elected president of the World Bank on 1 June 1995, was to some extent behind this quick response of the World Bank to the call of the G7.

The MDF proposal was leaked to the *Financial Times* in September 1995. The idea was to create a facility which would pay, over a period of 15 years, the multilateral debt-service of a selected group of 20 HIPCs, with the aim of achieving a sustainable debt level. All aspects of the debt burden would be taken into account. Completed debt-reduction agreements with bilateral and commercial creditors as well as a good track record would be a condition for multilateral debt relief. To avoid the perception that the Bank would be recycling its own money, the facility would be created as an 'arm's length' mechanism outside the Bank's control, and at least half of the funding would have to come from other bilateral and multilateral donors. The Bank would contribute to the fund from its own resources, mainly through unexpected income from 1995 as well as future net income.

EURODAD and many other NGOs welcomed the MDF proposal as an important step towards a genuine resolution of the multilateral debt problem. For the first time, the World Bank had acknowledged explicitly that the problem affected more than just a few countries. Another new element was the proposal to reduce multilateral debt-service payments, while the MDF could offer a forum to deal with the entire debt of the poorest and most indebted countries in a comprehensive and concerted way. Moreover, it met two objections that the IFIs had raised against multilateral debt. These had maintained that multilateral debt reduction carried the risk of 'moral hazard', and feared that it could affect their credit-rating. However, as EURODAD had stressed before, these fears were poorly founded.

EURODAD and other NGOs realised that although the proposal was something of a breakthrough, it also had some important shortcomings. In its first reaction to it, EURODAD asked other NGOs to endorse the framework, while also commenting on the following flaws:

1. The debt problem was underestimated, as the choice of debt indicators was rather narrow, while the ratios chosen were too high. Moreover, four countries in arrears to the IMF were not included in the calculations.
2. The assumption of completed bilateral and commercial debt reduction was rather optimistic.
3. Bilateral donors were expected to contribute disproportionately: through bilateral debt relief and through contributions to the multilateral debt fund. The contributions of the IMF as well as the World Bank could be increased.
4. Debt relief remained linked to failing structural adjustment programmes.

Several countries opposed the proposal: Germany, Japan, and to a certain extent Italy and France. Others had problems with the financing of debt reduction — namely, the Nordic countries, the Netherlands, and Belgium — fearing that the facility would divert money from IDA. The most supportive countries were the USA and the UK. It should be noted that neither of these linked their support for the MDF to making bilateral contributions to it, though this irritated the smaller European countries that were prepared to contribute bilaterally. Bilateral contributions were also seen as a means to get a grip on the facility, instead of leaving it all to the IFIs.

Partially due to the opposition of the IMF, no consensus was reached on the proposal during the Annual Meetings of the World Bank and the IMF. The two institutions stated that the existing policy framework of strong adjustment in combination with appropriate debt-relief measures

by bilateral and commercial creditors, and the provision of adequate new concessional funding, should be sufficient to bring debt and debt-service for most countries down to manageable levels. The major result of the Annual Meeting was the decision that the World Bank and the IMF should present a concrete joint proposal at the Spring Meetings in April 1996.

After consultations with NGOs from both North and South during its Annual General Meeting and at EURODAD's annual consultation in November 1995, EURODAD prepared a position paper reflecting their views and which could be used for lobbying purposes.[14] The main points were similar to the ones already mentioned.

A new analysis and the first joint proposals

In early 1996, the World Bank and the IMF presented three new papers.[15] The first defined debt sustainability and evaluated several studies on the link between debt and economic performance. The key criteria to assess debt sustainability were firstly, a net present value of debt-to-export ratio of between 200 and 250 per cent; and secondly, a debt-service-to-export ratio of between 20 and 25 per cent. Certain risk factors or vulnerability indicators would also be taken into account. The second paper detailed a debt sustainability analysis of 23 countries. On the basis of country studies and preliminary analysis of a further 16 countries, the paper concluded that eight countries would have an unsustainable debt level, 12 would be 'possibly stressed', and 19 would have a sustainable debt level within five years. This analysis was not restricted to multilateral debt, but aimed to determine whether the overall debt situation was unbearable. The third paper entailed a proposal to deal with the debt problem.

While EURODAD and other NGOs welcomed this first effort of the Bank and the Fund to present a thorough analysis of the (multilateral) debt problem, it was felt that it exhibited some major shortcomings and that the IFIs had underestimated the debt problem for the following reasons:

1 The threshold ranges were arbitrary. Moreover, the use of net present value of debt was questionable, given that investors look at nominal value. The discount rate to determine the NPV was also probably too high. In addition, it was future rather than present debt sustainability that was calculated.

2 Debt sustainability should be based on a broader range of criteria. It should be linked to the budget, and in particular to expenditures on social development. Also, as many HIPCs have large trade deficits, it would make more sense to link debt sustainability to net exports

(exports minus necessary imports). Moreover, the amount of arrears should be taken into account. Finally, fiscal indicators should be measured adequately.

3 The margins used in the calculations of the risk factors were too small; and several risk factors were not included, such as political instability, external shocks, the effect of the debt overhang, and adverse climatic changes.

4 Three countries excluded from the analysis (Liberia, Somalia, and Nicaragua) have unsustainable debt burdens.

5 The assumptions regarding export growth and new aid inflows, as well as the assumed sharp rise in private investments, were too optimistic.

Drawing on Matthew Martin's analysis,[16] EURODAD argued that at least 32 countries would face a debt problem if a broader range of more realistic debt indicators was taken. In addition, it stressed its preference for debt-reduction (as opposed to re-financing) as well as the need for a comprehensive approach to the whole problem. Finally, it urged the IFIs to delink debt reduction from current structural adjustment programmes. Many NGOs adopted EURODAD's criticism.

The third joint paper was sent to the Boards of the Bank and the Fund in early March 1996. This entailed a proposal to deal with the debt problem of HIPCs: the HIPC Initiative. The proposed mechanism for multilateral debt relief — the Multilateral Debt Trust Fund — was rather similar to the Multilateral Debt Facility, but far fewer countries would be eligible to use it.

This HIPC Initiative was divided into two phases of three years each, during which the country would implement a World Bank/IMF-supported adjustment programme. The first phase was based on existing debt-reduction mechanisms. Paris Club creditors, and other bilateral and commercial creditors, would grant up to 67 per cent debt-service relief during the first phase. At the end of the period, at the so-called decision point, they would give up to 67 per cent debt stock relief, if this would lead to a sustainable debt level. If not, the country could apply for the second phase, during which the reduction by bilateral and commercial creditors would be increased to 90 per cent. If debt stock reductions by bilateral and commercial creditors at the end of the second phase, at the so-called completion point, were not sufficient for the country to reach a sustainable debt level, then multilateral creditors should finally provide debt relief. A Trust Fund would be created to pre-pay a portion of the multilateral debts of these countries.

In a letter accompanying the joint paper, James Wolfensohn mentioned the possibility of using World Bank net income and surplus as possible sources to co-finance the Trust Fund, to which the IMF would not contribute directly — though it was suggested that it might do so through its ESAF.

In a letter to James Wolfensohn of the Bank and Michel Camdessus of the IMF, as well as to the respective Executive Directors, EURODAD responded to the proposed HIPC Initiative. It agreed with the need for a concerted and comprehensive approach, and with the need for a broad and equitable participation of all creditors, in order to achieve debt sustainability. But it was felt that the effectiveness of the proposal was restricted, for several reasons. First, the debt problem was underestimated and the timeframe of three-plus three years too long. Second, while action by the Paris Club and other bilateral and commercial creditors was a condition for multilateral debt relief, the amount of debt eligible for relief under Paris Club rules was too limited. Third, debt stock relief was not mentioned as an option. Fourth, the IMF would not be contributing to the Trust Fund. And finally, debt relief was linked to failing structural adjustment programmes.

However, NGOs disagreed among themselves on the continuation of the ESAF. Some believed that it should be abandoned, and others that it should be continued, though the adjustment programmes should be changed. At a NGO meeting in March 1996, consensus was reached on the following:

1. that the IMF option of extending the ESAF would not contribute to debt relief;
2. that the IMF should have no say in the Trust Fund if it did not contribute to it;
3. that governments should not contribute to the ESAF if the IMF was not contributing to debt relief; and
4. that gold sales should be used for debt relief, not for the ESAF.

At the IFIs' Spring Meetings, the framework for dealing with the debt problem was accepted. A major disappointment was the position of the IMF since it agreed to contribute to the Initiative only through a continuation of the ESAF. There was a discussion within the IMF on the possibility of softening the ESAF by extending the maturities, though EURODAD pointed out that this would hardly contribute to debt relief: re-financing old loans with new, softer loans would reduce the net present value, but would not solve the problem of a debt overhang. This

re-financing strategy had proven unsuccessful in the past. EURODAD felt that the IMF had (ab)used the debate on multilateral debt relief to gather support for its permanent ESAF, as a way to remain involved in this group of developing countries. EURODAD and other NGOs suggested that the IMF should sell part of its gold stock to co-finance the Trust Fund.

Before their June 1996 Summit in Lyon, EURODAD urged G7 governments to endorse the Initiative, and to agree to topping up the Naples Terms to 90 per cent as well as broadening the amount of debt eligible for bilateral debt reduction.[17] The outcome of the Summit was rather disappointing. The G7 countries did not agree on an extension of the Naples Terms, but merely urged the Paris Club creditor countries to go beyond these where they deemed it appropriate to do so, on a case by case basis. This implied that the G7 had abandoned the consensus approach, enabling individual creditors to go beyond the agreed terms on their own. It proved how inappropriate and inadequate common action had become in the context of the Paris Club. The G7 endorsed the continuation of the ESAF and possibly a more concessional version of this as the IMF's contribution. The idea of reaching a consensus on gold sales was abandoned. To avoid an open conflict, the G7 stated that 'we will examine ... the options for financing the needed subsidies, using primarily resources held by the IMF'. It was also stated that the IMF should 'optimise its reserve management', which was in fact a reference to gold sales.

Small improvements

After the Spring Meetings in April 1996, the joint Bank/IMF proposal was further refined, and improvements made that met some of the concerns raised by EURODAD and other NGOs.[18]

The IMF's most likely contribution to the initiative would be a combination of escrowed (softer) ESAF loans and grants. The IMF staff preferred the grant option, because it was cheaper and would not increase the debt (while the loan option would increase the face value of the debt). The contribution to the Initiative and the continuation of the ESAF were to be financed by bilateral contributions and, if necessary, up to five per cent of the IMF's gold stock. (Essentially, the gold would be sold, the proceeds invested, and the profits on the investments used for the ESAF.) Remarkably, the IMF now admitted that new loans *would* increase the debt stock.

The IMF proposal to issue grants instead of loans was an improvement. Nevertheless, a direct contribution to the Trust Fund would have been better, since this could be used for stock reduction, not only to service relief. In addition, a separate mechanism for the IMF was inconsistent with the idea of a concerted approach. It was also possible that the IMF and the World Bank would have to contribute beyond their exact share, as some multilateral creditors, such as the African Development Bank, would not have sufficient resources to contribute. And finally, the proposed grants would still be directly linked to adjustment programmes.

The World Bank was prepared to undertake action during the second phase by providing supplemental IDA allocations and IDA grants, and committed itself to contributing US$500 million surplus income up to a total of US$2 billion for a period of four years. At the same time it expected that for the next five years annual allocations of its net income of between US$200 million and US$250 million would be needed. The Bank expected that other multilateral banks and bilateral donors would also contribute.

These proposals met some of EURODAD's concerns. Debtor countries would be involved in assessing financing needs; and the possibility of debt-stock relief (as opposed to debt-service relief) was mentioned. Remarkably, the IMF had mentioned grants as an option, as well as gold sales as a way to finance the ESAF. However, several of the concerns raised by EURODAD and other NGOs remained unanswered, such as the limited contribution of the IMF, the under-estimation of the debt problem, the long timeframe, and the conditionality involved.

The total costs of the Initiative were estimated at US$5.6 billion in net present value (excluding Liberia, Somalia, and Sudan), of which the multilaterals would pay US$2 billion. If bilateral and commercial creditors were to provide 80 per cent instead of 90 per cent debt relief, the costs for multilaterals would increase to US$3.2 billion. Eighteen countries would have sustainable debt burdens, and only 10 were expected to need multilateral debt relief.[19]

In August 1996, the IMF and the World Bank presented new details of the HIPC Initiative, which included the following improvements:

- Participation of the debtor country in the analysis was adopted.
- Vulnerability indicators were explicitly included in determining the 'target debt ratio' to be achieved by the end of the programme. The burden of external debt service on the government budget was introduced as an indicator.
- Social development was mentioned as a performance criterion.

- Some flexibility regarding uneven performance under an ESAF programme was introduced: if a country risked going off track, credit might be given for implementation prior to doing so.
- If after the first phase it was unclear whether a country would have a sustainable debt level after six years, the country would have the right to choose whether to continue with the second phase or to opt for a 67 per cent stock operation of bilateral and commercial debt.

In spite of such progress, however, several of EURODAD's concerns remained unresolved. At a meeting of several NGO networks in mid-September 1996, it was agreed that the HIPC Initiative had the potential to provide a comprehensive exit strategy towards debt sustainability. However, its flaws meant that it could only be seen as a first step. The following five points were brought to the attention of IFI policy-makers and government officials in the weeks before the Annual Meetings of the Bank and the Fund:

1. The proposal offered too little, too late, due to strict eligibility criteria and the long timeframe.
2. Multilateral as well as bilateral creditors should respect the principle of burden-sharing. The Bank and the Fund should not expect the Paris Club to go beyond present debt-relief measures if they were not prepared to take responsibility for their share.
3. The IMF should contribute to the multilateral debt Trust Fund from its own resources.
4. The Paris Club should commit itself to deferring early cut-off dates, cancelling all ODA debt, and increasing debt reduction to 90 per cent.
5. Structural adjustment programmes should not remain the key condition for debt relief.

At the 1996 Annual Meetings, the IFIs endorsed the initiative with no major changes, except that the Bank seemed to be prepared to be more flexible on the timeframe. The Paris Club agreed to an 80 per cent reduction of eligible Paris Club debt, on a case by case basis — less than the 90 per cent asked for by the World Bank and the IMF. But, as EURODAD pointed out, the actual effect of 67, 80, or 90 per cent debt reduction under Paris Club rules is much smaller than the percentages suggest, because of the early cut-off dates and because of the exclusion of ODA debt by large creditors such as the USA and Japan. The World Bank had calculated that for the 13 countries that would probably go to the second phase, an 80-90 per cent reduction under Paris Club rules would lead to an actual reduction of Paris Club debt of only 16.7 per cent and 24.7 per cent respectively.

NGOs had different opinions on the Initiative. Some, including EURODAD and most of its members, welcomed the framework, stressing that, in relation to the position of the Bank and the Fund two years before, much progress had been made. However, even these NGOs expressed concerns regarding the implementation of the Initiative (in particular by the IMF and the Paris Club) and criticised three major issues. First, the limited effect of Naples Terms, due to the exclusion of a large extent of Paris Club debt from treatment. Second, the fact that the IMF's contribution was insufficient, and depended too much on bilateral contributions rather than its own resources. And third, that the timeframe was still too long.

Other NGOs saw the Initiative as a means to continue imposing structural adjustment programmes on developing countries and so essentially rejected it. In particular, they criticised the IMF for abdicating responsibility for its own role in the debt crisis, stating that the ESAF should be discontinued.

EURODAD believes that these two NGO positions are less contradictory than might seem at first sight. Both imply serious doubts about the effect of ESAF programmes. Both criticise the contribution of the IMF and the Paris Club. The main difference is that EURODAD believes that the fight for changing adjustment should not take place at the expense of a debt framework which has many good elements. Moreover, once a sustainable debt level has been reached, debtor countries will be less dependent upon conditionalities from the IMF and related agencies for accessing foreign assistance to finance sustainable development and growth.

EURODAD has set itself two main tasks for the near future. First, it is necessary to keep pushing for improvements in the general framework, in particular regarding the three points mentioned above. Second, the implementation of the Initiative must be closely monitored. For this purpose, EURODAD and partner NGOs have agreed to set up a network to exchange information on the Initiative, and to build capacity in following its implementation. This network would consist of NGOs and debt experts from the HIPC countries as well as from the North.

Conclusion

As the global multilateral debt campaign has shown, lobbying can be very effective. In this case, major changes were made possible by the hard work of a coalition of NGOs, debt experts, and some progressive governments, as well as enlightened forces within the World Bank, in particular the World Bank Task Force on multilateral debt.

EURODAD played a central role in this global campaign by 'keeping so many people informed and in helping build a global network', as an NGO colleague commented in an internal report. Although EURODAD's main tasks were information-sharing, providing strategic guidance, and building a global network, other aspects of its work were important too: in particular, lobbying at national and international levels, and press work.

The global campaign on multilateral debt can be viewed as a success. The IFIs and governments have finally acknowledged the existence of a multilateral debt problem, and have come up with a proposal to deal with it in a concerted and comprehensive way. Moreover, in the course of 1996, small changes have been introduced to the HIPC Initiative. For instance, a developing country is allowed to participate in the assessment of its debt situation; and debt-sustainability analyses are based on a broader range of criteria, including government spending on social development. However, instead of what NGOs fought for and were promised by the World Bank HIPC team — namely, to include debt repayment compared with expenditures on social development from the national budget as an indicator in the debt analysis — the IMF and World Bank staff as well as some creditor governments have put social development as an extra conditionality, and thus another performance criterion in the HIPC framework.

This and other points presented above show that the present HIPC Initiative is far from perfect. The IFIs continue to under-estimate the problem, the timeframe of the Initiative is much too long, the contribution of the IMF is too small, the Paris Club offers too little, and current structural adjustment programmes remain the key criterion for debt relief. The biggest threat to its success is that the objective of minimal debt sustainability will be sacrificed for what some major creditors believe they can afford. Nevertheless, the Initiative is a good start. The task of NGOs is to keep lobbying for improvements to remove its major flaws, and monitor its implementation, by stepping up the pressure on the major players and also by assisting Southern NGOs to build their own capacity.

Notes

1 World Bank, *Reducing the debt burden of Poor Countries. A framework for Action*, Washington: World Bank, September 1994: 48.

2 World Bank Task Force, 'The Multilateral Debt Facility'. Unpublished paper. Washington, July 1995.

3 Forty-one countries are classified as HIPCs.

4 Throughout this article, EURODAD (European Network on Debt and Development) refers to the EURODAD Secretariat and not to the EURODAD network, which consists of NGOs in 16

European Countries. EURODAD has been working on the multilateral debt campaign with several active NGOs of the network as well as with NGOs outside it and other players, including governments in the USA, Canada, Japan, and the South.

5 To protect the credit rating of the IFIs, it is an unwritten rule that obligations to these institutions are serviced prior to other obligations. For the same reason, the IFIs have always refused to grant debt relief. Percy Mistry and others have argued that acknowledging the existence of bad debts and acting accordingly would not affect the credit rating. See, for instance, Percy Mistry (1994), *Multilateral Debt: An Emerging Crisis?* The Hague: Fondad. EURODAD believes that the IFIs should not be exempt from offering debt relief.

6 The NGO position was reflected in a letter from the global network of NGOs working on debt (the Global Debt Treaty Movement) to the G7 in Naples. This became the major guideline for NGOs working on multilateral debt.

7 World Bank/IMF, 'Multilateral Debt of the Heavily Indebted Poor Countries'. Unpublished. Washington, 6 February 1995.

8 Naples Terms are the latest terms for debt relief offered by the Paris Club, the group of bilateral creditors (mainly OECD countries). The maximum debt relief offered according to Naples Terms is a 67 per cent reduction of eligible debt stock. For details, see: *Naples Terms: Not what they appear to be*. EURODAD briefing paper, Brussels, 1995.

9 For a summary of EURODAD's comments, see: *Multilateral Debt: A Problem to be Acknowledged and Resolved*. EURODAD Briefing Paper, Brussels, March 1995.

10 World Bank/IMF, 'Issues and Developments in Multilateral Debt and Financing for the Heavily Indebted poor Countries — Further Consideration'. Unpublished paper, Washington, March 30, 1995.

11 These are the IMF's 'Right Accumulation Programme', the World Bank's 'Additional Support for Workout Programmes in Countries with Protracted Arrears', and IDA's 'Fifth Dimension'. For More information, see EURODAD World Credit Tables 1994/95.

12 See for an overview of these options EURODAD: *EURODAD World Credit Tables 1997*, Brussels, September 1996, 17-18.

13 G7: 'G7 Background Document to the Economic Communiqué'. Unpublished paper, June 1995.

14 EURODAD: 'Multilateral Debt and a Multilateral Debt Facility. Comments and Recommendations'. Brussels, 22 December 1995.

15 These were: World Bank, 'Analytical Aspects of the Debt Problems of Heavily Indebted Poor Countries', unpublished, January 1996; World Bank/IMF, 'Debt Sustainability Analysis for the Heavily Indebted Poor Countries', unpublished, 31 January 1996; World Bank/IMF, 'Proposed Action to Resolve the Debt Problems of Heavily Indebted Poor Countries', unpublished, March 6, 1996.

16 Matthew Martin, 'A Multilateral Debt Facility. Global or National'. Paper prepared for the G24, March 1996.

17 This could be done by including all debt generated from loans after a debtor government's first appearance at the Paris Club — the so-called 'cut-off date', which thus far is not eligible for debt relief.

18 See: IMF, 'ESAF Financing Modalities. Further Consideration', unpublished paper, 15 May 1996; World Bank, 'Status Report on World Bank Participation in the HIPC Initiative' , unpublished paper, 4 June 1996; IMF, 'Financing a continuation of ESAF and the Fund's participation in the HIPC Initiative', unpublished paper, 23 August 1996; World Bank: *World Bank Participation in the HIPC Debt Initiative*, 26 August 1996.

19 Four of the 41 HIPCs — Liberia, Somalia, Sudan, and Nigeria — were excluded from the analysis. The 19 remaining countries were potential candidates. For six of them, 67 per cent bilateral and commercial debt stock relief would be sufficient, while 13 countries would need to go to the second phase. For three of them, bilateral and commercial debt relief would be sufficient, while the remaining ten countries would also need multilateral debt relief.

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