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The unbreakable link – debt relief and the millennium development goals



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A report from **Jubilee Research**
at the **New Economics Foundation**

by Romilly Greenhill

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Executive summary

This report tracks the progress of poor countries towards debt sustainability under the HIPC initiative; as well as likely progress towards meeting the Millennium Development Goals (MDGs). We go to print as senior policy-makers at the preparatory meeting of the UN Financing for Development Conference appear to have backed down from their commitment at the UN's Millennium Summit in 2000 to 'free the entire world from want'.

We conclude that

- The British Chancellor's welcome proposal for an increase in OECD aid by \$50bn a year will prove ineffectual in achieving the Millennium Development Goals in the HIPC countries, unless there is 100% cancellation of the debts of these countries;
- A high proportion of aid flows are currently being directed towards unproductive debt repayments to institutions like the IMF and World Bank, and not to genuine aid for the poorest people of the world. We believe that this will not be welcome news to OECD taxpayers;
- To achieve the first MDG of halving the proportion of people living in extreme poverty in the HIPC countries will not only require 100% debt cancellation; but also an increase in the current level of aid to the HIPCs from \$15bn to \$46bn a year;
- This is less than the increase in US military spending in one year, 2003, and would cost each person in the developed world only \$1 per week, or \$50 a year;
- The world would be a much more secure place if these resources were used for development, rather than for destruction;
- Even if the first goal is not achieved, protecting the human rights of millions of people in the HIPC countries will require spending on health, education, water and other social services in order to meet the other Millennium Development Goals;
- These expenditures alone will require 100% debt cancellation, plus additional aid of \$16.5bn.

Introduction

*There will be no Peace if there is no Justice,
There will be no Justice if there is no Equity,
There will be no Equity if there is no Progress,
There will be no Progress if there is no Democracy
There will be no Democracy if there is no Respect
For the Identity and Dignity of all Peoples and Cultures*

Rigoberta Menchu Tum, Nobel Peace Laureate in an Open Letter to President Bush, Sept 2001.

It was Adam Smith, not Karl Marx, who noted back in 1776 that the affluence of the very rich was contingent upon the misery of the very poor. Given massive increases in the accumulation and concentration of wealth, that truth is far more potent today than it was in Smith's time. Globalisation, or more specifically, the liberalisation of capital flows, has liberated the owners of finance capital, and pitted their interests against the fundamental human rights of more than one billion people. As one cynic has noted, never before in the history of mankind has there been so much finance, yet so little human development.

As this report goes to press, President Bush has announced that the US has \$48bn in the 2003 budget to devote to unproductive expenditure, mainly military hardware and weapons. At the same time his representative has blocked an agreement to increase aid for the poor at the UN.

As we prepare for the historic Monterrey conference – the first UN conference in 50 years to address international finance issues, and to link these to human development – there is growing anger within civil society at the vengeful and

short-sighted attitudes of key world leaders. Their lack of vision brings to mind the Treaty-makers of Versailles in 1918/1919. Then an attitude of vengeance led to a refusal to cancel unpayable German debts. More seriously, world leaders in 1918/19 denied a future to millions of men, women and children, by their failure to make the decisions, and the sacrifices, that would have delivered a safe, sustainable and orderly world.

History must not be allowed to repeat itself. This modest report concludes that our world would be a much more secure place, and our futures far more hopeful, if President Bush's \$48 billion were spent on human development, and not on weapons of destruction.

We offer it in this spirit to the leaders and finance ministers of the rich countries, and to the thousands of delegates at the Monterrey conference.

Ann Pettifor
Director
Jubilee Research
at the **New Economics Foundation**,
London.

* "Wherever there is great property, there is great inequality...The affluence of the rich supposes the indigence of the many." Wealth of Nations, pp. 709-710, quoted in Robert Heilbroner, "21st Century Capitalism" 1993.

Preface

We believe and hope that this report will explode two myths – myths that have sadly been given too much credibility in recent months.

The first myth is that international debt has been dealt with, that it is no longer an issue.

Jubilee Debt Campaign recognises that significant progress was made as a result of the Jubilee 2000 movement for the cancellation of the unpayable debt of the world's poorest nations under a fair and transparent process.

Campaigners had every reason to celebrate their achievement and to congratulate Gordon Brown on the lead he and the UK government have given on this issue. It is great that there are children now in school – and schools with a little more equipment – as a result of debt relief.

But this report clearly demonstrates that so much more remains to be done. The debt campaign has never been about securing a little more debt relief. It was – and is – about a vision for a new start for the poor, set free from the chains and injustice of debt. The debt campaign was never about debt cancellation as an end in itself; it was based on the hard and harsh reality that poverty could not be significantly reduced without it.

Governments worldwide have signed up to the UN Millennium Development Goals; this report demonstrates that the achievement of those goals demands deeper and faster debt cancellation. International debt still remains to be dealt with.

The second myth is that the campaign was over, the campaigners had given up.

This report is a clear sign that the Debt Campaign is alive and well, determined to press the case for debt cancellation with vigour, conviction, and on the basis of fact.

JDC campaigners are far from being wild-eyed idealists; we believe that the battle against poverty remains one of the great moral issues of our time; but it is a battle that has to be fought with a passion that encompasses real facts and real figures – because we can never forget that it is real people who are the victims of debt.

Roger Chisnall
Stephen Rand

Co Chairs, Jubilee Debt Campaign (UK)

Jubilee Debt Campaign is the campaigning arm of Jubilee Debt Coalition, registered charity no 10556675

The unbreakable link – debt relief and the millennium development goals

We will spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want.¹

United Nations Millennium Declaration

At the start of the new millennium, the world's leaders met in the United Nations General Assembly to set out a new global vision for humanity. In their Millennium Declaration, the statesmen and women recognised their 'collective responsibility to uphold the principles of human dignity, equality and equity at the global level.'² They pledged to 'spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty.'³

From these fine words, a set of goals was born: to eliminate world poverty by the year 2015; to achieve universal primary education; to promote gender equality and empower women; to reduce child mortality; improve maternal health; to combat HIV/AIDs and other diseases; and to ensure environmental sustainability. According to Clare Short, the UK's Secretary of State for International Development, these goals have the potential to 'transform the lives of hundreds of millions of poor people, and make the planet a better and safer place for our children and grandchildren.'⁴

Since then, the Millennium Development Goals – as they were subsequently named – have been adopted by all major donor agencies as guiding principles for

their strategies for poverty eradication. The OECD 'confirmed their commitment to reducing poverty in all its dimensions and to achieving the seven International Development Goals.'⁵ The IMF and World Bank have co-ordinated their efforts behind this set of goals, and the UK Government has made them the centrepiece of its overall aid strategy. More importantly, the adoption of the targets has motivated a fundamental shift within development thinking – away from a narrow focus on inputs, towards a fundamental concern with outcomes for the poor of the world.⁶

Moreover, since the adoption of the MDGs in the year 2000, events have conspired to reinforce the urgent need for poverty reduction in the world. According to Gordon Brown, the aftermath of September 11th has shown that 'the international community must take strong action to tackle injustice and poverty...[and to] achieve our 2015 Millennium Development Goals.'⁷

But meeting the 2015 targets requires resources. Ernest Zedillo, in his report of the High Level Panel for Financing for Development, has assessed that total additional resources of \$50bn per year will be needed meet these targets worldwide, over and

¹ United Nations Millennium Declaration, Resolution 55/2

² *ibid.*

³ *ibid.*

⁴ Foreword to 'Halving world poverty by 2015: economic growth, equity and security' DFID 2001.

⁵ OECD/DAC Guidelines on Poverty Reduction: In the Face of Poverty

⁶ Sir John Vereker, Permanent Secretary of the UK's Department for International Development, at a speech at the All Party Group on Overseas Development (APGOOD), January 23rd 2002

⁷ Statement from the Rt Hon Gordon Brown MP to the IMFC on Saturday November 17th 2001

Box 1: The Millennium Development Goals

1 Eradicate extreme poverty and hunger

- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

2 Achieve universal primary education

- Ensure that, by 2015, children everywhere, girls and boys alike, will be able to complete a full course of primary schooling

3 Promote gender equality and empower women

- Eliminate the gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

4 Reduce child mortality

- Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

5 Improve maternal health

- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

6 Combat HIV/AIDS, malaria and other diseases

- Have halted, and begun to reverse, the spread of HIV/AIDS
- Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases

7 Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
- Halve by 2015, the proportion of people without sustainable access to safe drinking water
- By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

8 Develop a global partnership for development

above the current level of spending in key areas. This estimate is based on detailed costings in some of the key goal areas by UN bodies such as UNICEF, the World Health Organisation, and others such as the World Bank.⁸

The UN Millennium Declaration was not the only remarkable event of the year 2000. Equally notable – though perhaps more poignant – was the winding down of the Jubilee 2000 campaign, described by Kofi Annan as ‘the voice of the world’s conscience and indefatigable fighters for justice.’⁹ The Jubilee 2000 coalition had campaigned for the cancellation of the un-payable debts of the poorest countries by the end of 2000, under a fair and transparent process. Their petition – the largest ever – had been signed by 24 million people worldwide.

The central message of the Jubilee 2000 campaign was that human rights should not be subordinated to money rights. Poor countries prepared to commit resources to meeting the basic needs and economic rights of their populations should not be prevented from doing so because of the need to pay back debts to rich creditor countries and institutions.

The Jubilee 2000 campaign had won a commitment to a \$110bn write off of un-payable debts. This was to be achieved partly through an extension of the World Bank’s Heavily Indebted Poor Countries (HIPC) initiative, and partly through additional bilateral commitments from creditors such as the UK.

But it is now clear that the HIPC initiative is not delivering enough either to produce the promised ‘robust exit’ from unsustainable debts or to meet internationally agreed poverty reduction goals. As shown in Box 2, by the end of 2001 – a full year after the millennium deadline called by the Jubilee 2000 coalition – only four countries had passed through all the hoops of the HIPC initiative. Out of the 42 countries included in the process, almost half of these had not even reached ‘decision point’, after which they receive some interim relief on their debt service payments. Moreover, even when

relief is provided, research by Jubilee Plus¹⁰ has shown that debt burdens remain unsustainable. **HIPC is a failure.**

For this reason, debt campaigners have argued that debt relief can no longer be based on arbitrary debt-to-export ratios, designed by rich country creditors and multilateral institutions so as to minimise their own losses. Instead, poor countries should be able to call for debt relief when it is clear that debt repayments are crowding out payments for services fundamental to human rights.

Debt campaigners were encouraged, therefore, by indications that the up-coming UN Financing for Development Conference would be prepared to consider linking debt relief to each country’s capacity to raise the finance needed to achieve the millennium development goals.¹¹ But hopes were dashed when this proposal was rejected by the G7 countries, including the EU, Japan, and Canada. In the usual round of horse-play which precedes these conferences, the G77 countries have been forced to make concessions in this area, merely in order to keep the rich countries on board.¹²

We believe that this is wrong.

We show in this report that if poor country governments are to have sufficient resources to meet the MDGs, as well as to meet other essential expenditure needs and pro-poor investments, **the 42 HIPC countries as a whole cannot afford to make any debt service payments.** In fact, we find that **even if all the debts of these 42 countries are cancelled, the HIPCs will need an additional \$30bn in aid each year if there is any hope of meeting goal 1 while for the other goals, a total of \$16.5bn will be needed.**

These figures are based on actual debt service payments for 1999 – before most of the HIPCs had received any substantial debt service relief from the HIPC initiative. But as the latest figures from the World Bank have shown, even when all 42 countries

8 Report of the High Level Panel on Financing for Development, United Nations

9 Cited in ‘The world will never be the same again’ Jubilee 2000 Coalition, December 2000

10 See ‘Flogging a Dead Process’, a Report by Jubilee Plus, September 2001

11 UN General Assembly, Preparatory Committee for the International Conference on Financing for Development, 4th Session: Revised draft outcome prepared by the Facilitator, 7 December 2001

12 Source: Financial Times, Monday January 28th, ‘US blocks move for big rise in aid to poor countries’, by Carola Hoyos and Allan Beattie.

Box 2: Progress in the HIPC Initiative as of end 2001

1. Completion Point Countries (4)

Bolivia
Mozambique
Tanzania
Uganda

2. Decision Point Countries (20)

Benin
Burkina Faso
Cameroon
Chad
Ethiopia
The Gambia
Guinea
Guinea-Bissau
Guyana
Honduras
Madagascar
Malawi
Mali
Mauritania
Nicaragua
Niger
Rwanda
Sao Tome and Principe
Senegal
Zambia

3. Other Countries (18)

Angola
Burundi
Cape Verde
Central African Republic
Comoros
Congo DR
Congo Rep
Cote D'Ivoire
Ghana
Lao PDR
Liberia
Myanmar
Sierra Leone
Somalia
Sudan
Togo
Vietnam
Yemen

have fully passed through the HIPC initiative, the savings will only amount to a paltry \$3.5bn per year.¹³ It is clear that much deeper, and faster, debt relief must be provided.

Some may disagree with our conclusion. They may argue that the MDGs will be met without any international action, simply because of economic growth in high population countries such as India and China. But we believe that this is not within the spirit of the MDGs. For us, the MDGs dictate that mass poverty should be eradicated across all countries and regions of the world.

Still others may argue that debt service payments do not really matter, if they can be offset with new aid. But there seems little point in increasing aid if it merely serves to improve creditor balance sheets. Moreover, rich country citizens are unlikely to react kindly to the realisation that their taxes, far from being used to build schools and hospitals in the poorest countries on earth, are instead being used to fund debt repayments. More importantly, however, we believe that debt relief can have a much larger impact on poverty reduction than fresh aid, for reasons we will discuss.

¹³ Source: 'The financial impact of the HIPC Initiative', World Bank, December 2001.

Debt service payments take resources from the MDGs

Calculating the resources needed to meet the MDGs in each country is no easy task. Data on the number of poor people in each country, the current level of indicators such as HIV and malarial prevalence, or even the number of children in school, is often not available, or not reliable. Moreover, working out the exact amount that will need to be spent across different countries to meet common objectives requires making heroic assumptions about costs in each country. Some of the goals – such as ‘reversing the loss of environmental resources’ are inherently very difficult to evaluate.

In this report, we make use of country specific estimates prepared by key international bodies such as the World Bank, UNICEF, World Health Organisation, and Water Vision 21. These estimates form the basis of the \$50bn estimated by Ernest Zedillo and are widely used by the international community in their assessments of the resource requirements of the MDGs.¹⁴ For goals and targets for which no estimates have been prepared, we use the total figures provided in the Zedillo Report.

For each country, we look at the actual required spending in 1999¹⁵ and compare this to debt service paid in that year.¹⁶ For some countries, the savings as a result of the HIPC initiative will have somewhat reduced debt service payments. But given our overall conclusion – that all debts much be written off for the HIPCs as a whole – this matters little.

It is clear that there will be other countries, not included within the HICP list, which will need further debt relief to meet the MDGs. This is an important issue, which will need more investigation, but we have decided here to focus on the small group of the poorest and most indebted countries.

It should be emphasised that our approach is not new. Others, including CAFOD,¹⁷ Christian Aid, Joe Hanlon,¹⁸ and Eurodad¹⁹ have undertaken similar exercises. Here, our aim is mainly to update these analyses with the most recent global estimates of the costs of meeting the 2015 targets, and the most recently available figures of current spending on both debt services and key social expenditures.

Goal 1: Eradicate extreme poverty and hunger

- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Eradicating mass poverty is often seen as the most fundamental of the MDGs. In the simplistic world of the donor community, extreme poverty is defined as living on less than one dollar a day. This is a very problematic assumption, not least because people’s well-being, or ill-being, depends on much broader factors than absolute income. Moreover, using an absolute international poverty

¹⁴ It should be noted that in most cases, we have used the most conservative estimates of the required spending, for example by excluding the capital costs of education spending.

¹⁵ Where necessary, we have translated the cost estimates into 1999 dollars using standard GDP deflators

¹⁶ For three of the 42 HIPCs: Liberia, Somalia, and Myanmar the data was so poor that we were unable to include them in our analysis at all. These countries, which have recently or are currently experiencing conflict, are likely to need full debt relief if their war ravaged economies are to be repaired. But for now, we have had to leave them out of the analysis.

¹⁷ For example, ‘Further and deeper debt cancellation is vital for development’ Presentation at the UN’s Financing for Development Preparation Committee, by Henry Northover, October 2001; and ‘The Human Development Approach to Debt Sustainability Analysis for the World’s Poorest, CAFOD Policy Paper

¹⁸ Cancelling debt to promote development: Paper by Joseph Hanlon, Policy Advisor to Jubilee 2000 Coalition

¹⁹ Putting Poverty Reduction First: Why a poverty approach to debt sustainability must be adopted. Eurodad, October 2001.

line does not reflect differences in relative poverty across countries. While it represents gross numbers, or incidence, of those who are counted as poor, it says nothing about the depth of poverty or the inequalities amongst the poor, or between the poor and rich. But, as DFID argues, the \$1 target 'represents an internationally agreed operational method of identifying the number of people who by any standards have unacceptably low incomes.'²⁰

Of all the MDGs, this goal is also the most difficult to relate to debt service payments. It is clear that debt repayments are taking resources that could be spent to reduce poverty, but quantifying the exact linkages is much more difficult.

In Box 3 (overleaf), we provide an econometric assessment based on the standard econometric models which have been used by mainstream economists to calculate the resource requirements for poverty reduction.²¹ The figures in Box 3 should not be taken too seriously – they rest on a number of questionable economic assumptions, particularly concerning the relationship between growth and poverty, and investment and growth. In particular, the results assume no role for redistribution within countries in order to reduce poverty. For this reason, we separate out these figures in our overall assessment of the amount needed to meet the MDGs.²²

Our overall point is simply that by using standard and widely accepted economic models, we can show that in a world of finite development resources, debt repayments will be traded off with limited poverty reduction expenditures.

Goal 2: Achieving universal primary education

- Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Access to primary education is a basic human right. Education benefits individuals, their families, and also society as a whole, by enabling greater participation in democratic processes. Education serves to empower individuals, helps them to take advantage of economic opportunities, and improves their health and that of their family.

Yet, in 2000, **one in three** children across the developing world did not complete the 5 years of basic education which UNICEF believes is the minimum required to achieve basic literacy.²³ We are clearly a long way from achieving the Millennium Development Goal of achieving Universal Primary Education by 2015.

UNICEF has calculated the amount that countries will need to spend in order to meet the MDGs.²⁴ They found that almost all of the HIPCs will need to increase spending on education – with larger countries such as Ethiopia needing to spend an extra \$203m, and the poorer HIPCs such as Burkina Faso and Niger needing an extra \$60m.

We added these estimates to current level of spending on education, taken from the World Development Indicators 2001.²⁵ From this, we were able to calculate the total spending that would be required in each of the HIPCs each

20 DFID: Halving world poverty by 2015: economic growth, equity and security.

21 The sources referred to in the Text Box are L. Hanmer, N.D. Jong, R Kurian and J Mooij (1999) 'Are the DAC targets achievable?: Poverty and human development in the year 2015', Journal of International Development 11, no.4 pp 547-63; Ricardo Gottschalk (2000) 'Growth and Poverty Reduction in Developing Countries: How much external financing will be needed in the new century?' and UNCTAD (2000) 'Capital Flows and Growth in Africa.'

22 This is also because there is potential double counting between this goal and the other MDGs. Economic growth is likely to automatically increase education and health spending as governments have more resources available from taxes. A better educated population will also, other things being equal, result in higher economic growth.

23 Is EFA affordable? Estimating the Global Minimum cost of 'Education for All', UNICEF Innocenti working paper no. 87.

24 UNICEF did this by: estimating the number of children enrolled in school in 2000; estimating the number of children who will be in school in each year between 2000 and 2015 assuming that enrolment rates don't change, based on projected levels of population growth; estimating the number of children who will need to be in school each year if enrolment ratios move from current levels to 100% by 2015, in a linear fashion; calculating the number of new school places that will be needed each year, by subtracting the total number of children who will need to be in school to reach 100% by 2015, from the baseline scenario; multiplying the number of additional children to be added into school by country specific educational costs relative to expenditure levels in the year 2000; and then dividing the additional costs by 15 to get average annual costs. It should be noted that we take the lower range of UNICEF's estimates, excluding, for example, the capital costs of building classrooms and the recurrent costs of improving educational quality.

25 It should be noted that these include all forms of educational spending, i.e. including secondary and tertiary spending. However, in most countries secondary and tertiary spending are small in comparison with primary spending.

Box 3: The Economists' approach – debt, poverty and growth

Economists generally find poverty difficult to deal with. Poor people can't be consumers, they can't participate in the market place, they don't have any 'effective demand.' Moreover, doesn't the very existence of poor people put economics in jeopardy? If economists are doing their job properly, why are 1.3 billion people still living in absolute poverty, by their own definitions?

Economists generally think that, in order to reduce poverty, you need economic growth. And in order to grow, you need to invest. Logically, money that is spent on debt repayments cannot be spent on investment, and thus reduces poor countries' ability to grow.

It is easy to be very sceptical about the links between poverty and growth, and growth and investment. It is very clear that growth does not necessarily reduce poverty, nor that investment necessarily promotes growth. But for once, we will put our scepticism on hold and follow the methodology used by mainstream economists – most of whom are equally sceptical of the methods they use – including those at the Overseas Development Institute (ODI), the Institute of Development Studies (IDS), and the UN Conference on Trade and Development (UNCTAD).

We will show that, with standard economic methodologies, **all the debt must be cancelled if the growth targets are to be met.**

Methodology

Economists such as Lucia Hanmer and others at the UK's Overseas Development Institute have calculated the amount of economic growth that will be required in each region if the proportion of people living in poverty is to be cut by half. They assume that income distribution will stay the same, meaning that regions with higher income inequality – such as Latin America – will have to grow faster than countries with lower income inequality – such as East Asia – in order to reduce poverty. Hanmer's calculations are also used as the basis for the UK's Department for International Development (DFID)'s strategy for meeting the MDGs.

Table 1: Required growth rates by region for meeting the MDGs:

Region	Per capita growth	Total growth
Sub Saharan Africa	5.9%	8.2%
Middle East and North Africa	2.8%	4.7%
East Asia and Pacific	3.5%	4.3%
South Asia	3.9%	5.5%
Latin America and the Caribbean	7.0%	10.2%
East Europe and Central Asia	3.8%	3.9%

(Total growth is per capita growth plus population growth)

Other economists such as Ricardo Gottschalk from IDS, and those at the United Nations Conference on Trade and Development (UNCTAD) have gone further to look at the levels of investment needed to reach these target growth rates. The rationale behind this is that in order to grow, countries need to invest. Growth and investment are related through an 'incremental capital output ratio', which describes the amount of output which is created from a given level of investment.

Using these ratios, we can calculate the required level of investment in each region to reach the target growth rate. According to Gottschalk's calculations, investment would have to be 49% of GDP in Africa, 48% in Latin America and the Caribbean; 19% in East Asia; and 33% in the Middle East and North Africa to meet the target growth rates. These levels have historically only been seen in one country – Singapore – and then only through government coercion.

Clearly, some of the investment required can be financed from domestic sources. For each country within the group of 42 HIPCs, therefore, we looked at the current level of savings relative to GDP, taken from the World Bank's World Development Indicators. The difference between the current savings, and the required investment, is what economists call the 'savings gap.' This is the gap that needs to be filled by external financing.

Some of the external financing can, of course, come from private external capital flows. Private external financing can include workers remittances, foreign direct investment (FDI), and portfolio flows – i.e. purchase of domestic stocks and shares by foreign investors. We are assuming that all of these are outside the control of the individual poor country, and that they will grow broadly in line with world GDP. So, each country has an 'official financing gap' based on the level of investment they will need in order to grow to reduce poverty, minus what they can expect to save domestically, and the private transfers they can expect from overseas. The remainder will have to be met through official transfers from overseas, either through grants or loans.

This is where the debt comes in. We assume that debt service should only be paid if there are sufficient available resources left after the funding requirements of the MDGs have been met. So, we can calculate, for each of the HIPCs, how much is available for debt service. This is defined as their official financing gap, less what they are currently receiving in grants and new loans. For purposes of illustration, we use 2000 data (projecting increases in grants and loans from 1999), to show the impact of the initial growth rates on requirements.

Appendix Table 1 shows the results for each of the HIPC countries. In sum, it shows that:

- **In total, the HIPC countries need an total of \$46bn per year if they are to meet the required growth targets. This is with total debt cancellation.**
- Individually, almost every HIPC will need additional resources, and be unable to make any debt service payments, to meet the targets. The only HIPCs for which this is not the case are Angola, Laos, Vietnam, and Yemen. However, in most cases this is probably because of problems with the data. For example, according to the World Development Indicators, Angola has a savings rate of 32%, which seems a little improbable. In the case of the Asian HIPCs, the growth rates which will be required to meet the poverty reduction targets are probably under-estimated, because they are based on regional averages – as the HIPCs are amongst the poorest in the region, the rate at which they will need to grow will be accordingly higher.
- Most of the other countries require substantial increases in external official financing, due to the high levels of investment needed. In particular, some of the larger HIPCs, such as Sudan and Tanzania will require external financing of more than \$4bn, over and above what is currently received.

These figures may seem extremely high in relation to current aid flows. But the results are in fact comparable with other work by UNCTAD, which has estimated that investment to GDP ratios will have to be as high as 40% in Sub Saharan Africa if growth targets are to be met.

year if the MDGs are to be met. These are shown in Appendix Table 2.

Box 4: Empty futures in Burkina Faso

After ten years of IMF sponsored structural adjustment, two thirds of men and almost 90% of women in Burkina Faso are illiterate – statistics which are shocking even by African standards. Even now, only one third of children attend school. In 1999, only \$36m, or 1.4% of GDP was spent on education, while almost twice that amount – \$63m – was spent on debt service. This is almost exactly the figure that UNICEF calculates that Burkina Faso will need to spend on education if there is to be any hope of achieving Universal Primary Education by the year 2015.

Burkina Faso reached Decision Point under the enhanced HIPC initiative in June 2000, and is scheduled to reach Completion Point before March 2002. But even according to the World Bank's own criteria, her debts will not be sustainable until at least 2007. Meanwhile, her children will stay out of school, with empty futures, and blighted lives.

Appendix Table 2 shows that the HIPC countries will only need to spend \$6.5bn each year in order to ensure that every child gets an education sufficient to ensure basic literacy. While large relative to the incomes of HIPCs, on a global scale this figure is miniscule – representing, for example, less than half of one percent of the projected US defence budget of \$1,600bn over the next five years. And only \$1.2bn of this is additional to what governments are currently spending – although, as Box 4 shows, countries like Burkina Faso will need much larger increases in spending than some of the other HIPCs.

Goal 4: Reducing child mortality

- Reduce, by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: Improving maternal health

- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6: Combating HIV/AIDS, malaria and other diseases

- Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
- Have halted by 2015, and begun to reverse, the incidence of malaria and other related diseases.

A tragedy is unfolding in Africa. Within the last 24 hours, 5,500 Africans were killed by HIV/AIDS. One in five of all adults in Africa are infected by the virus, while 17 million Africans have died from AIDS since the start of the epidemic. AIDS has so far left 13 million children orphaned, a figure which will grow to 40 million by 2010 if no action is taken.²⁶

Moreover, AIDS is not the only killer. Other diseases such as malaria, TB, childhood infectious diseases, maternal and prenatal conditions and micronutrient deficiencies abound. Average life expectancy in Africa has *fallen* since 1980, from 48 to 47 – and in individual countries, the fall is much more extreme. Life expectancy in Zambia is now only 38 years, down from 50 years in 1980, while Sierra Leone has a life expectancy of only 37 years. And even these figures mask the catastrophic impact on children. In Africa, 161 children out of every 1,000 children will die before their fifth birthday; in Niger, this figure is as high as one in four.²⁷

Yet, the Global Commission on Macroeconomics and Health has estimated that **eight million** lives could be spared each year if a simple set of health interventions needed to meet the MDGs were put in place.

²⁶ Source: 'Reality Check: The Need for Deeper Debt Cancellation and the Fight Against HIV/AIDS' Drop the Debt Report, April 2001.

²⁷ Source: World Development Indicators 2001

The Commission, which is chaired by Professor Jeffrey Sachs of Harvard University, was launched by Gro Harlem Brundtland, Director General of the World Health Organisation, in 2000. In a recent report into Macroeconomics and Health, it stated that ‘the vast majority of the excess disease burden [in poor countries] is the result of a relatively small number of identifiable conditions, each with a set of existing health interventions that can dramatically improve health and reduce the deaths associated with these conditions. **The problem is that these interventions don’t reach the world’s poor.** Some of the reasons for this are corruption, mis-management and a weak public sector, but in the vast majority of countries, there is a more basic and remediable problem. **The poor lack the financial resources to obtain coverage of these essential interventions, as do their governments.**’²⁸

Box 5 shows the key set of health interventions identified by the Commission.

The Commission also established the costs of scaling up the interventions on a country by country basis.²⁹ They recommend that, if the MDGs are to be met, the least developed countries will need to spend an average of \$41 per capita each year, while other low income countries will need to spend \$37 per capita. From this, it is easy to calculate the total required spending in each of the HIPCs.³⁰ The results of the exercise are shown in Appendix Table 3.

Appendix Table 3 shows that the 39 HIPCs will between them need to spend \$20bn each year on health if the MDGS are to met – almost three times their 1999 levels of debt service. This figure may sound large, but it is only slightly more than the \$17bn spent each year in Europe and the US on pet food.³¹ As with education, larger countries will need bigger increases in health spending: As Box 6 shows, for example, Ethiopia will need to spend almost \$2.5bn on health care in order to meet the MDGs, compared to a total expenditure on health of only \$70m in 1999.³²

Box 5: Required health interventions to meet the Millennium Development Goals

- **TB treatment:** directly observed short course treatment for smear positive patients; directly observed short-course treatments for smear negative patients;
- **Malaria prevention:** insecticide treated nets; residual indoor spraying
- **Malaria treatment:** treatment for clinical episodes of malaria
- **HIV/AIDS prevention:** including youth focused interventions; interventions working with sex workers and clients; condom social marketing and distribution; workplace interventions; voluntary counselling and testing; prevention of mother-to-child transmission; treatment for STDs and mass media campaigns.
- **HIV/AIDS care:** palliative care; clinical management of opportunistic infections; prevention of opportunistic illnesses; and home based care.
- **HIV/AIDS HAART**
- **Childhood disease related interventions**
- **Vaccinations**
- **Maternity related interventions:** antenatal care; treatment of complications during pregnancy; skilled birth attendance; emergency obstetric care; postpartum care.

²⁸ Report of the Commission on Macroeconomics and Health, Page 4.

²⁹ The costs were analysed on a country by country basis, taking into account demographic and socio-economic factors. A model was used to estimate the cost of implementing the interventions, the required new investments in training staff and facilities, and the required management and institutional support. The costs of the interventions were then adjusted to reflect the requirements for the process of scaling up interventions. These include a management cost of 15%; an additional 15% for absorptive capacity given the magnitude of resources required; and quality considerations, including a 100% pay increase for staff.

³⁰ The per capita expenditures were translated into 1999 dollars using a dollar deflator taken from the IMF’s World Economic Outlook

³¹ Source: Water Supply and Sanitation Collaborative Council

³² Source: Decision Point paper for Ethiopia, World Bank

Box 6: More debt, more death in Ethiopia

Of all the HIPCs, Ethiopia has one of the largest needs in terms of health spending – a colossal \$2.5bn per year, compared to spending of only \$70m in 1999. This amount – which totals about 40% of Ethiopia's GDP – is clearly unaffordable. But prospects for reducing the disease burden in Ethiopia, in which 10% of the population have HIV/AIDS, life expectancy is only 42, and almost one fifth of children die before their fifth birthday, have not been helped by her huge debt burden, which in 1999 stood at almost 90% of her GDP.

Ethiopia finally reached decision point under the enhanced HIPC initiative in late 2001, following the end of her border conflict with Eritrea in 2000. But even after the projected 47% reduction in her total debts, her debt service will remain high – at least \$74m per year for the next 20 years. Prospects for debt sustainability will be further worsened by the colossal amounts of new debt which Ethiopia is projected to contract – debts amounting to more than 10% of GDP in 2001/02, according to the World Bank. It seems that Ethiopia will have more debt, and more death, for many years to come.

The Commission recommends that some of the increase in spending needed should come from domestic revenues. But as they note, 'for the low-income countries, we still find a gap between financial means and financial needs, which can be filled only by the donor world if there is to be any hope of success in meeting the MDGs.³³ But 'there is another method to raise more revenues for health in low income countries: deeper debt relief, with the savings allocated to the health sector.'³⁴

The need for more debt relief is evident. The Commission Report has shown that vast improvements in the lives of millions of people in poor countries are achievable, with an increase in expenditure totalling only 0.1% of GDP of the rich donor and creditor countries. Yet, despite this overwhelming imperative, the poorest countries are still paying debt service of \$8bn per year.

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water

Like education and health care, access to safe water is a basic right. Safe water is vital for proper health and hygiene, including the prevention of water borne diseases. Distances travelled to fetch water result in a huge loss of time for poor people, particularly women and children. Yet, **one billion** people currently lack safe drinking water

and almost **three billion – half the world's population** – lack adequate sanitation. **Two million** children die each year from water-related diseases. As the Vision 21 Framework for Action states, this situation is 'humiliating, morally wrong and oppressive.'³⁵

This is the more so, given that the resources required to ensure universal access to basic water and sanitation are comparatively small. Water Vision 21, a report produced by partners in the Water Supply and Sanitation Collaborative Council, has estimated that providing access to safe water and sanitation will only cost \$25 per rural dweller – \$15 to provide access to safe water, \$10 for rural sanitation and hygiene promotion – and \$75 per urban dweller, of which \$50 is for urban water and \$25 for peri-urban sanitation. These are additional to the costs currently borne by households and communities. These are one-off costs of providing access to basic water, and do not include the continuing costs, for example of operations and maintenance of current water supplies.

In order to meet the MDG of halving the proportion of people without sustainable access to safe drinking water, our calculations (shown in Appendix Table 4) find that in total, the HIPCs would have to spend only \$2.4bn per year on

33 *ibid*, page 6

34 *ibid*, page 62

35 Vision 21: A Shared Vision for Hygiene, Sanitation and Water Supply p.1

water and sanitation³⁶ – less than Europe spends on alcohol over ten days.

Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

Slums are defined by the World Bank as ‘neglected parts of cities where housing and living conditions are appallingly poor.’³⁷ Hundreds of millions of the urban poor in developing countries currently live in unsafe and unhygienic environments where they face multiple threats to their health and security. The tenth millennium development target commits the international community to over-turning this unacceptable situation, and improving the lives of at least 100 million slum dwellers by 2020.

The World Bank has calculated that programmes of upgrading that would provide services to all slum areas in all developing countries could be implemented at a cost of approximately 0.2% to 0.5% of GDP.³⁸ When the costs of investment in infrastructure, land acquisition and necessary institutional support are added, the total comes up to around 1% to 2% of GDP. Because the MDG only refers to improving the lives of 100 million slum dwellers worldwide, we take the lower of these estimates, and assume that the HIPCs will need to spend 1% of GDP annually on improving slum conditions. In total, this comes to **\$1.7bn** for all the 39 HIPCs considered.

Other goals and targets

Goal 3: Promoting gender equality and empowering women

- Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Providing basic health, education and water to the populations of poor countries is clearly vital and should be given preference over debt service payments. But at the same time, other dimensions of development – such as promoting gender equality and protecting environmental resources, are also needed if development is to be sustainable in the long run.

Unfortunately, however, these goals are inherently difficult to cost, and are therefore difficult to compare with debt service payments. Promoting gender equality and empowering women will, according to the Zedillo report, require a total yearly sum of \$3bn, but we cannot tell how this will be allocated across the HIPCs and non HIPCs. Ensuring environmental sustainability will require a much greater change in resource use and energy use, particularly the need for contraction and convergence in energy use between rich and poor countries.

³⁶ In order to calculate the level of spending required to meet the target of halving the proportion of people without sustainable access to safe drinking water, we first took figures of current levels of rural and urban water coverage for 2000, from the World Development Indicators 2001. For some countries, 1990 data had to be used. From this, we estimated the absolute number of people without access to water sources, for both rural and urban areas, in 1999.

We then looked at projected population growth rates for 2015, taken from the World Development Indicators 2001. We assumed that the rural and urban growth rates would be the same. This is probably an over-simplifying assumption, given that we might expect faster population growth in the urban areas, given the gradual trend towards urbanisation. However, this assumption if anything will underestimate the total costs, given that costs of provision of water are estimated to be much higher in urban than in rural areas.

Next, we calculated the target water coverage for 2015, which was assumed to halve the proportion of people without access to safe water - in other words, if 60% of the population had access to safe water in 1999, then the target for 2015 would be 80% - so that the proportion lacking access to water was reduced from 40% to 20%.

Taking into account the population projections for 2015, we then calculated the number of people who would have access to water in 2015 if the targets were met. We subtracted the number of people having access to water in 2000 from the number in 2015 assuming that the target is met. This gave us the total number of people who would have to gain access to water over the period.

We multiplied this by the cost of accessing water per person, i.e. \$25 for each person in rural areas and \$75 for each person in urban areas. This gave us a total cost over 15 years, which we then divided by 15 to give an average cost for each year and each country over a 15 year period.

This was added on to current expenditures on water. Unfortunately, it proved very difficult to gain estimates of current levels of expenditure on water, so we had to make an assessment based on regional averages of the share of total budgets spent on the water sector (even if these figures are slightly misleading, we can assume that there would be scope to reallocate within budgets for those countries which spend a lower than average proportion of their budgets on water.)

We had to exclude some of the very small countries, such as Cape Verde, Comoros, Guyana and Sao Tome and Principe from the analysis because of lack of data.

³⁷ World Bank: Cities Alliance for Cities Without Slums: Action Plan, page 1.

³⁸ Ibid.

Total required to meet MDGs

Our analysis shows that the total funds required each year to meet MDGs 2 to 7 are not exorbitant. In order to meet the UN Millennium Declaration's intention to 'free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected'³⁹, a mere \$30.6bn per year is required.

This figure may be small in global terms. But as Table 2 shows, it represents 18% of GDP for the 42 HIPCs as a whole, and a staggering 355% of their debt service. Graph 1 shows the breakdown of this total by country.

Table 2: Breakdown of Funds required to meet Millennium Development Goals 2 to 7

No.	Goal	US\$ required	% of GDP for 39 HIPCs	% of current debt service for 39 HIPCs
2	Achieving universal primary education	6.5bn	3.8%	2.8%
3	Promote gender equality and empower women	Not known	Not known	Not known
4	Reduce child mortality	20.03 bn	11.9%	225%
5	Improve maternal health			
6	Combat HIV/AIDs, malaria and other diseases			
7	Ensure environmental sustainability:	Not known	Not known	Not known
	● Reverse the loss of environmental resources	2.4bn	1.4%	27.0%
	● Halve the Proportion of people without access to safe drinking water	1.7bn	1%	19.1%
	● Improve the lives of at least 100 million slum dwellers			
	Total	30.6bn	18.1%	355%

³⁹ United Nations Millennium Declaration, op.cit

Linking debt servicing to the Millennium Development Goals

Even without servicing their external debts, it is clear that the 39 HIPC face a formidable challenge if they are to raise the level of resources required to meet the MDGs.

While it is true that governments can raise their own revenues by taxing their domestic populations, in most of the HIPC countries the extreme poverty experienced means that governments find it very difficult to raise the kind of resources needed.

Debt servicing worsens this position by diverting precious needed resources, which could be used for saving lives, and educating children, towards rich country creditors.

Moreover, governments cannot be spending all their revenues on social expenditures. Crucial expenditures such as maintaining law and order, public administration, essential infrastructures such as roads, policing and defence are also needed. Following Joe Hanlon, who bases his analysis on work done by Jeffrey Sachs, we argue that the HIPCs should be spending 10% of GDP on other essential expenditures.⁴⁰

Given the current ability of the HIPC governments to raise revenues, and given the essential expenditures needed to meet the MDGs and for other essential expenditures, we now ask: how much can the HIPCs afford to pay to their rich country creditors in debt service payments? To answer this question, we first look at the

revenue raising capacity of the HIPC governments.⁴¹ To do this, we take the actual revenues for 1999 for each country.⁴² To this, we add grants received in 1999, taken from the World Bank's Global Development Finance. Following Hanlon, we assume that 50% of all grant revenues are used for tied aid, administration, foreign consultants etc, meaning that only the remaining 50% could be used for either debt servicing, or meeting the MDGs. This gives us an indication of the total resources available to each of the HIPCs.

We then subtract from this the amount of money needed to meet the MDGs, in order to provide an indication of how much could be potentially used for servicing the debt.

Our analysis shows that, as whole, **the HIPCs have no spare resources available that could be used for debt servicing.** In fact, even with 100% debt cancellation, **the HIPCs will require an additional \$16.5bn if goals 2 to 7 are to be met,** and this is without the additional \$30bn needed for goal 1.

On a country by country basis, there seem to be some countries which have resources available to service their debts. These countries are Bolivia, Republic of Congo, Guyana, Honduras, Mauritania, Nicaragua, and Yemen. But in most of these cases, this is because the World Bank data, from which the assessments of revenue are drawn, show extremely high revenue to GDP ratios.⁴⁴ Apart from Yemen, which has substantial oil

40 This is broken down into 2% on public administration; 3% on police and defence; and 5% on essential infrastructures such as roads.

41 The best way to do this would be to use a methodology originally suggested by CAFOD, which calculates the maximum possible revenue that could be collected assuming that all income above the \$1 per day poverty line can be taxed at a rate of 25%. However, we found it very difficult, for this group of very poor countries, to gain access to precise estimates of people living below the poverty line, which made it difficult to use this methodology.

42 For HIPCs which had reached decision point, data on revenues was taken from the Decision Point documents. For some other HIPCs, for which 'preliminary documents' had been issued from the World Bank, data was taken from the preliminary documents. For other countries, data was taken from the IMF's International Financial Statistics. For Angola, Cape Verde, Central African Republic, Equatorial Guinea, Lao PDR and Togo, no figures were available, therefore the average of all other HIPCs as a percentage of GDP (16%) was used.

43 This is in line with the global estimate of \$50bn given in the Zedillo Report, and used as a basis for resource mobilisation by Gordon Brown, amongst others.

44 i.e. 23% for Bolivia, 25% for the Republic of Congo, 28%-29% for Mauritania; 31% for Yemen and 35% for Guyana.

revenues, these figures seem completely unrealistic.⁴⁵ If we assume that the other four countries have a revenue to GDP ratio of 16% (which is average for the HIPCs, and higher than the 1998 averages for all low and lower middle income countries given in the World Development Indicators⁴⁶), we find that, like the other HIPCs, there are no spare resources available in any of these four countries for debt servicing.⁴⁷ In the case of Honduras and Nicaragua, the figures

are for 1999, and generally do not take account of the horrendous impact of Hurricane Mitch which devastated these two countries, undermining their ability to collect the kind of revenues seen prior to this catastrophe.

Our conclusion, therefore, is simple. **All of the 39 HIPCs here – and the three not included in our data set – will need 100% debt cancellation if the MDGs are to be met.**

Counter arguments

This conclusion has far reaching implications, and in particular shows that the current process for debt service reduction, the HIPC initiative – which will bring down debt service payments by only around 27% in nominal terms – is woefully inadequate.

We know that our conclusion will not be welcomed by everyone, in particular the rich country creditors and multilateral institutions who collect the meagre interest payments paid by poor countries. Accordingly, we now deal with two popular counter arguments: firstly, that it is impossible to ensure that the money saved in debt service payments is not siphoned off elsewhere; and secondly, that we should be increasing grants, rather than providing debt relief.

Objection 1: How can we ensure that the savings made in debt service payments will in fact be channelled towards meeting the MDGs?

This is a common objection to any form of debt relief mechanism, and generally reflects a patronising view of poor country leaders as being corrupt and incompetent. Certainly corruption is an issue, and as such has been the target of much action by Jubilee 2000 campaigners in heavily indebted nations. However, it is somewhat ironic that

multilateral and bilateral creditors are concerned about corruption when discussing debt relief – yet pay little attention to issues of corruption when making new loans.

Moreover, experience in the use of HIPC resources to date has shown that, if civil society is involved, mechanisms can be developed to ensure that all debt relief funds are dedicated to key expenditure areas as required to meet the MDGs. Encouragingly, Uganda's experiences with costing her Poverty Eradication Action Plan - the Ugandan Poverty Reduction Strategy Paper - have shown that debt relief can be channelled towards those expenditures most likely to have an impact on poverty targets.

Objection 2: We should provide more aid, not reduce debts.

The colossal financing needs of the poorest countries if the MDGs are to be met have not gone unnoticed by world leaders. Gordon Brown's new proposed trust fund, into which major donors would contribute funds towards the overall target of \$50bn per year, is a commendable example of the concern of some of the leaders of rich countries to meet these goals. So, why not forget about debt relief, and just provide for more aid?

45 There is also an inconsistency in Bolivia's data. Total revenues are estimated at 23% of GDP in the World Bank's documents, including her decision point document Table 5, and Table 4 of the paper on Impact of Debt Reduction under HIPC on social expenditures (calculating from social expenditures as a share of revenues yields an estimate of 23.4%.) However, the World Development Indicators has an estimate of 17.5% as a percentage of GDP.

46 Namely 13.9% for low income and 14.2% for lower middle income countries

47 Assuming a revenue to GDP ratio 16% provides a total estimate of \$1,331bn for Bolivia; \$354bn for Republic of Congo; \$153bn for Mauritania; and \$99bn for Guyana. When entered into the total calculations, all of these countries find that their capacity to make debt service payments falls below zero.

As we have already argued, there is little point in providing more aid to poor countries if it is just to be swallowed up in debt service payments. But more importantly, there are many arguments to suggest that debt relief will be much more effectively used than increased aid.

Firstly, global aid flows are, despite the 0.7% of GDP commitment, in long term decline. The US recently termed ODA as an 'obsolete form of development assistance.' Even the UK currently gives less than half the 0.7% aid target.

Secondly, debt relief acts as de facto budget support - meaning that it is money that can be used by the government according to its own strategic priorities, just like its own revenues. Traditional project aid -

through which donors provide funds for a particular purpose, such as building a road or an individual food security project - faces multiple difficulties. These include donor co-ordination; priorities being determined by donors' strategic interests rather than by recipient governments; tying of aid to procurement from the host country; and transactions costs. More importantly, however, debt relief is highly predictable - it is the securest form of revenue, stretching over a 20 year period.

In many countries, debt relief also has greater ownership within debtor countries, particularly amongst civil society groups. People see the savings from debt relief as 'their' money to be spent wisely, rather than donors' money which is seen as having little to do with domestic needs.

Box 7: Channelling funds to meet the Millennium Development Goals in Uganda

Uganda's Poverty Action Fund - which provides a ring-fenced set of expenditures within the overall budget which are deemed 'directly poverty reducing' is often cited as a model for other HIPC countries to follow. More than this, the Poverty Action Fund has shown that spending can be channelled towards the key areas needed to meet poverty reduction targets.

Uganda's Poverty Eradication Action Plan (PEAP) has its own set of targets, although these are relatively similar to the MDGs. The targets were developed within consultative sector wide planning processes, under the sector wide approaches currently underway in Uganda, supported by major donors, including DFID.

Each of the specific targets in the PEAP has been costed. Although relatively crude, the costings provide a basis for estimating the amount of resources required to meet the PEAP targets. This is done by comparing the expenditure levels in the 2000/01 budget year with the required expenditure levels in order to meet the targets. This provides an indication of which expenditure areas are relatively well funded, and which will need large increases.

For example, the exercise found that in 2000/02 the Water and Sanitation sector was only 42% funded, Health was 54% funded, while areas such as Roads were 79% funded.

The costings exercise has enabled the Government of Uganda to re-prioritise expenditures in line with the findings of the exercise. For example, in the 2001/02 budget, a year after the preliminary costings exercise, the government increased the budget for primary health care by 50% and the Water and Sanitation budget by more than 40%, in both cases using debt relief funds through the Poverty Action Fund.

Uganda's case clearly shows that with better information about the resources required to meet the MDGs, a clear political commitment to poverty reduction and the involvement of civil society, resources saved from debt relief can be targeted towards meeting key poverty goals.

Conclusion: the need for a Sabbath economics

Our conclusion is clear. If the Millennium Development Goals are to be met, all of the HIPC's will need full cancellation of all of their debts.

This is not an act of charity, but a moral imperative. While eight million die each year for want of the funds spent by the rich countries on their pets; when millions of children stay out of school for want of half a percent of the US defence budget; and when the amount spent on alcohol in a week and a half in Europe would be adequate to provide sanitation to half the world's population, something is very wrong.

Maybe it is time, once again, to call on biblical principles. The 'Jubilee' principle – which provides ways of reversing the relentless flow of resources from the poor to the rich, and narrowing the gap between – formed the foundation of one of the most successful global campaigns ever. But there are others. The central tenets of 'Sabbath Economics' are that the world is abundant and provides enough for everyone – but that human communities must restrain their appetites and live within limits. For Sabbath Economics, disparities in wealth and power are not natural, but come about through sin, and must be mitigated within the community through redistribution.⁴⁸

We do not have to believe in God - or indeed any religion - to accept these principles. It is enough for us to recognise that more than a billion people do not need to live in poverty while their debts continue to be repaid. The current HIPC initiative does not and cannot do enough to bring down the unsustainable debt burden of the world's poorest countries. If the Millennium Development Goals are to be met, there is no alternative but to provide a new framework for debt relief – one which respects the human rights of the poor.

48 Myers, C (2001) 'The Biblical Vision of Sabbath Economics'

Appendix Table 1: Official financing needs and debt service

Country	Official financing needs	Loan disbursements	Grants 2000	Available for debt service
Angola	-519	979	271	1769
Benin	987	84	102	-802
Bolivia	2480	444	214	-1822
Burkina Faso	1002	127	235	-641
Burundi	377	21	62	-294
Cameroon	2927	318	197	-2412
Cape Verde	121	52	47	-22
Central African Republic	463	17	82	-364
Chad	843	102	63	-678
Comoros	56	2	16	-39
Congo, DR	2447	0	98	-2349
Congo, Rep	451	0	134	-317
Cote d'Ivoire	2845	256	380	-2209
Equatorial Guinea	86	4	12	-70
Ethiopia	3101	242	361	-2498
Ghana	3580	473	265	-2842
Guinea	1222	110	164	-948
Guinea-Bissau	115	5	43	-67
Guyana	145	71	30	-44
Honduras	1199	636	309	-253
Lao PDR	9	84	148	224
Madagascar	1705	155	187	-1363
Malawi	913	158	264	-492
Mali	1027	144	196	-687
Mauritania	433	59	171	-203
Mozambique	1413	163	649	-601
Nicaragua	866	528	337	0
Niger	956	43	127	-787
Rwanda	1054	115	237	-702
Sao Tome and Principe	15	6	10	0
Senegal	1724	94	389	-1240
Sierra Leone	402	36	67	-298
Sudan	4271	0	224	-4047
Tanzania	4314	351	596	-3367
Togo	653	92	45	-516
Uganda	2844	218	393	-2233
Vietnam	-2491	1120	267	3878
Yemen	345	321	163	138
Zambia	1590	274	360	-956
TOTAL	45,731	7903.4	7915	-30152

Appendix Table 2: Education

Country	Additional spending required 1999 (\$m)	Actual expenditures 1999 (\$m)	Total required Expenditures (\$m)
Angola	50	128	178
Benin	20	64	84
Bolivia	17	449	467
Burkina Faso	59	36	95
Burundi	8	21	30
Cameroon	70	202	272
Cape Verde	1	17	18
CAR	5	17	22
Chad	13	31	44
Comoros	1	6	7
Congo, DR	18	162	180
Congo, Rep	11	109	120
Cote d'Ivoire	183	471	653
Equatorial Guinea	3	17	20
Ethiopia	206	174	380
Ghana	19	334	354
Guinea	33	101	134
Guinea-Bissau	2	5	7
Guyana	0	18	18
Honduras	13	183	196
Lao PDR	4	26	30
Madagascar	15	67	82
Malawi	9	69	78
Mali	39	59	97
Mauritania	8	34	43
Mozambique	67	139	206
Nicaragua	9	54	64
Niger	62	61	122
Rwanda	18	65	83
Sao Tome and Principe	0	1	1
Senegal	66	162	227
Sierra Leone	8	7	15
Sudan	0	256	256
Tanzania	53	298	351
Togo	9	60	70
Uganda	24	141	165
Vietnam	0	803	803
Yemen	61	348	409
Zambia	6	60	66
TOTAL	1191	5254	6445

Appendix Table 3: Health

Country	Classification	per capita spending required 1999 (\$m)	Population (millions)	Total annual spending required (\$m)
Angola	LDC	39	12.4	484
Benin	LDC	39	6.1	238
Bolivia	LMIC	38	8.1	308
Burkina Faso	LDC	39	11	429
Burundi	LDC	39	6.7	261
Cameroon	OLIC	35	14.7	515
Cape Verde	LMIC	38	0.4	15
CAR	LDC	39	3.5	137
Chad	LDC	39	7.5	293
Comoros	LDC	39	0.7	27
Congo, DR	LDC	39	49.8	1942
Congo, Rep	OLIC	35	2.9	102
Cote d'Ivoire	OLIC	35	15.5	543
Equatorial Guinea	LMIC	38	0.4	15
Ethiopia	LDC	39	62.8	2449
Ghana	OLIC	35	18.8	658
Guinea	LDC	39	7.3	285
Guinea-Bissau	LDC	39	1.2	47
Guyana	LMIC	38	0.8	30
Honduras	LMIC	38	6.3	239
Lao PDR	LDC	39	5.1	199
Madagascar	LDC	39	15.1	589
Malawi	LDC	39	10.8	421
Mali	LDC	39	10.6	413
Mauritania	LDC	39	2.6	101
Mozambique	LDC	39	17.3	675
Nicaragua	OLIC	35	4.9	172
Niger	LDC	39	10.5	410
Rwanda	LDC	39	8.3	324
Sao Tome and Principe	LDC	39	0.1	4
Senegal	OLIC	35	9.3	326
Sierra Leone	LDC	39	4.9	191
Sudan	LDC	39	29	1131
Tanzania	LDC	39	32.9	1283
Togo	LDC	39	4.6	179
Uganda	LDC	39	21.5	839
Vietnam	OLIC	35	77.5	2713
Yemen	LDC	39	17	663
Zambia	LDC	39	9.9	386
TOTAL	N/A	N/A	528.8	20033

LDC: least developed country; OLIC: other low income country; LMIC: lower middle income country.

Figures converted into 1999\$ using GDP deflators for the US\$ and 2001 of 2.3% each year.

Appendix Table 4: Water

Country	Population 1999	Total required Expenditure on water
Angola	12.4	100.6
Benin	6.1	31.8
Bolivia	8.1	163.8
Burkina Faso	11	33.4
Burundi	6.7	14.9
Cameroon	14.7	92.1
Cape Verde	0.4	
Central African Republic	3.5	13.7
Chad	7.5	30.8
Comoros	0.7	
Congo, DR	49.8	110.6
Congo, Rep	2.9	60.6
Cote d'Ivoire	15.5	157.8
Equatorial Guinea	0.4	0.0
Ethiopia	62.8	175.6
Ghana	18.8	76.2
Guinea	7.3	40.8
Guinea-Bissau	1.2	3.5
Guyana	0.8	
Honduras	6.3	85.3
Lao PDR	5.1	14.6
Madagascar	15.1	57.6
Malawi	10.8	36.9
Mali	10.6	38.2
Mauritania	2.6	14.2
Mozambique	17.3	56.7
Nicaragua	4.9	39.7
Niger	10.5	34.7
Rwanda	8.3	27.7
Sao Tome and Principe	0.1	
Senegal	9.3	57.1
Sierra Leone	4.9	14.5
Sudan	29	117.4
Tanzania	32.9	119.5
Togo	4.6	18.7
Uganda	21.5	84.5
Vietnam	77.5	272.9
Yemen	17	156.8
Zambia	9.9	38.2
TOTAL	528.8	2391

Appendix Table 5: Improving the lives of slum dwellers

Country	GNP	1% of GNP
Angola	8545	85
Benin	2369	24
Bolivia	8323	83
Burkina Faso	2580	26
Burundi	714	7
Cameroon	9187	92
Cape Verde	575	6
CAR	1053	11
Chad	1530	15
Comoros	193	2
Congo, DR	5584	56
Congo, Rep	2217	22
Cote d'Ivoire	11206	112
Equatorial Guinea	581	6
Ethiopia	6439	64
Ghana	7774	78
Guinea	3482	35
Guinea-Bissau	218	2
Guyana	621	6
Honduras	5387	54
Lao PDR	1432	14
Madagascar	3721	37
Malawi	1810	18
Mali	2670	27
Mauritania	958	10
Mozambique	3979	40
Nicaragua	2268	23
Niger	2018	20
Rwanda	1956	20
Sao Tome and Principe	42	0
Senegal	4752	48
Sierra Leone	669	7
Sudan	8819	88
Tanzania	8760	88
Togo	1405	14
Uganda	6411	64
Vietnam	28682	287
Yemen	6825	68
Zambia	3150	32
TOTAL	168905	1689

Appendix Table 6: Summary

Country	Education	Health	Water	Slums	Total for MDGs	Other required spending (10% GNP)	Total required spending 1999	Actual Tax Revenue	Grants 1999	Possible Income (Tax + Grants/2)	Available for Debt Service 1999	Actual Debt Service 1999	Diff.
Angola	178	484	100.6	85.5	847.5	854.5	1702	1367	261	1498	-204	1144	-1348
Benin	84	238	31.8	23.7	377.6	236.9	615	371	98	420	-195	79	-274
Bolivia	467	308	163.8	83.2	1021.5	832.3	1854	1951	206	2054	200	494	-294
Burkina Faso	95	429	33.4	25.8	583.1	258	841	392	226	505	-336	63	-399
Burundi	30	261	14.9	7.1	312.9	71.4	384	106	60	136	-248	29	-277
Cameroon	272	515	92.1	91.9	970.5	918.7	1889	1650	190	1745	-144	549	-693
Cape Verde	18	15	0.0	5.8	38.6	57.52	96	92	45.6	115	19	22.1	-3
CAR	22	137	13.7	10.5	182.6	105.3	288	168	79.4	208	-80	18.7	-98
Chad	44	293	30.8	15.3	382.4	153	535	126	61	157	-379	32	-411
Comoros	7	27	0.0	1.9	35.8	19.27	55	21	15.3	28	-27	7.7	-35
Congo, DR	180	1942	110.6	55.8	2288.9	558.4	2847	296	94	343	-2504	21	-2525
Congo, Rep	120	102	60.6	22.2	304.0	221.7	526	556	129	621	95	25	70
Cote d'Ivoire	653	543	157.8	112.1	1465.6	1120.6	2586	2342	366	2525	-61	1449	-1510
Equatorial Guinea	20	15	0.0	5.8	40.9	58.11	99	93	11.3	99	0	5	-5
Ethiopia	380	2449	175.6	64.4	3068.8	643.9	3713	798	348	972	-2740	159	-2899
Ghana	354	658	76.2	77.7	1165.5	777.4	1943	1275	255	1402	-540	524	-1064
Guinea	134	285	40.8	34.8	494.8	348.2	843	388	158	467	-376	132	-508
Guinea-Bissau	7	47	3.5	2.2	60.0	21.8	82	39	41.2	60	-22	9.5	-31
Guyana	18	30	0.0	6.2	54.6	62.1	117	220	29	235	118	105	13
Honduras	196	239	85.3	53.9	574.9	538.7	1114	1052	298	1201	88	366	-278
Lao PDR	30	199	14.6	14.3	257.6	143.2	401	229	143	301	-100	37	-137
Madagascar	82	589	57.6	37.2	765.9	372.1	1138	422	180	512	-626	166	-792
Malawi	78	421	36.9	18.1	554.1	181	735	291	254	418	-317	69	-386
Mali	97	413	38.2	26.7	575.6	267	843	461	189	556	-287	106	-393
Mauritania	43	101	14.2	9.6	167.8	95.8	264	283	165	366	102	106	-4
Mozambique	206	675	56.7	39.8	977.4	397.9	1375	494	625	806	-569	125	-694
Nicaragua	64	172	39.7	22.7	297.4	226.8	524	568	325	731	206	187	19
Niger	122	410	34.7	20.2	586.8	201.8	789	171	122	232	-557	51	-608
Rwanda	83	324	27.7	19.6	453.8	195.6	649	188	228	302	-348	31	-379
Sao Tome and Principe	1	4		0.4	5.5	4.22	10	9	9.3	13	3	4.3	-1
Senegal	227	326	57.1	47.5	657.6	475.2	1133	779	375	966	-166	237	-403
Sierra Leone	15	191	14.5	6.7	227.1	66.9	294	48	65	80	-214	22	-236
Sudan	256	1131	117.4	88.2	1592.3	881.9	2474	681	216	789	-1685	57	-1742
Tanzania	351	1283	119.5	87.6	1840.7	876	2717	963	574	1250	-1466	194	-1660
Togo	70	179	18.7	14.1	281.7	140.5	422	225	43	246	-176	40	-216
Uganda	165	839	84.5	64.1	1152.5	641.1	1794	765	379	955	-839	184	-1023
Vietnam	803	2713	272.9	286.8	4075.3	2868.2	6944	4566	257	4695	-2249	1410	-3659
Yemen	409	663	156.8	68.3	1296.9	682.5	1979	2129	157	2208	228	157	71
Zambia	66	386	38.2	31.5	521.7	315	837	557	347	730	-107	439	-546
TOTAL	6445	20033	2391	1689	30559	16891	47449	27133	7625	30945	-16504	8856	-25360

Graph 1: Total required spending to meet Millennium Development Goals 2-7



