

Twenty years ago, Bob Geldof, at the launch of Live Aid, argued: “Doing nothing for Ethiopia would mean you were complicit in murder.” This briefing is produced by Jubilee Research at **nef** (the new economics foundation) in February 2004 – 20 years after Live Aid, and one year after Ethiopia’s worst drought in history. We explain how G7 creditors, having promised substantial debt relief, have stalled the disbursement of relief, and are doing nothing for Ethiopia; this despite the fact that according to their own commitments and rules she is fully entitled to this relief. “Doing nothing for Ethiopia” we argue, is once again to be “complicit in murder”. Why? Because if Ethiopia is denied additional debt relief, her government will lose US\$1 billion in new money, and be obliged to divert US\$35 million to service debt repayments to much richer creditors. This money could instead be used for hospitals, clean water and sanitation.

Doing nothing for Ethiopia
A briefing on Ethiopia’s debt
February 2004

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Doing nothing for Ethiopia

A briefing by Jubilee Research at nefⁱ

Introduction

Late in 2003, the International Monetary Fund (Fund) and the World Bank (Bank) deemed Ethiopia eligible for an additional US\$700 million (“Topping Up”) debt relief. Such relief is necessary to return Ethiopia to sustainability, according to the Bank and make her eligible for US\$1 billion in new lending. If Ethiopia does NOT receive topping up then the Government will have to spend an average of about \$35 million per year more in debt service over the next 10 years. In other words, getting the additional debt relief to lower Ethiopia's ratio of present value of debt to exports to 150 per cent will reduce the annual debt service cost by about US\$35 million per year over 10 years.

Jubilee Research at nef has been reliably informed that this promised relief is being delayed and blocked by the US with the tacit support of Germany and Japan. This is particularly ironic, as the Enhanced HIPCⁱⁱ Initiative was largely the creation of the German government, which obtained G8 endorsement for more generous debt relief for countries like Ethiopia at the Cologne Summit of 1999. Furthermore, the denial of legitimate relief for Ethiopia is in stark contrast to the generous relief being considered for Iraq — whose future export revenues are projected to be 35 times those of Ethiopia.

In response to our demands that they proceed to implement their own rules and commitments, the US Treasury has argued that it is concerned that Ethiopia would have an excuse to borrow more from the Bank. “We are concerned about the bank being in a position where it is in a continual cycle of lending and forgiveness” said a US Treasury Official (FT 12 February 2004), to which we at Jubilee Research retort: the US should encourage the Bank to grant more aid — just as President Bush argued in July 2001. “Grants”, he said, “were the long-term solution to the debt burden of developing countries...50% of the funds, provided by Development Banks to the poorest countries be provided as grants for education, health, nutrition, water supplies, sanitation and other human needs.” (BBC News)

Ethiopia's debt is not sustainable

Ethiopia needs additional debt relief, over and above that already granted, if she is to become sustainable, argue the Bank and the Fund. Under their stringent conditions, the external debt of poor countries is considered sustainable at no more than 150 per cent of that country's annual export revenues. Under current debt relief arrangements Ethiopia's ratio would be considerably higher.

To be eligible for debt relief, Ethiopia has met with the tough economic conditions set by creditors, and imposed through the Fund and the Bank, over the long five-year process of qualifying. Ethiopia has now, finally, reached completion pointⁱⁱⁱ of the Enhanced HIPC process. Without the additional topping up — US\$700 million that she has been promised and is now eligible for — the Bank and the Fund believe that Ethiopia will not emerge from an unsustainable level of indebtedness. If *additional* relief is denied, the Bank and Fund project that Ethiopia's debt-to-

export revenues ratio will rise to at 220 per cent *after* the full delivery of debt relief — fully 70 per cent above that considered sustainable.

Jubilee Research at **nef** has been reliably informed that although the Bank and the Fund finalised Ethiopia's Debt Sustainability Analysis as far back as November 2003, publication of the Board paper that would move Ethiopia to completion point in the debt relief process is being delayed by the opposition of powerful Fund and Bank shareholders — notably the US, Germany and Japan. These creditors are attempting to bypass the HIPC framework, and in particular the principle of topping up debt relief for poor countries in the event of external shocks.

In other words two of the world's richest creditors are attempting to adopt arbitrary criteria to deny a small and very poor country US\$700 million of debt relief. If Ethiopia is denied this relief, debt service payments will be an additional US\$35 million per year for the next 10 years. Worse, this denial of debt relief will prevent the World Bank from disbursing to Ethiopia a new, promised loan of US\$1 billion — because HIPC rules prevent the Bank from lending to countries deemed unsustainable.

US\$700 million of debt relief will have a significant impact on the Ethiopian economy as it represents almost twice the revenues from national exports per year. A fall in debt servicing of US\$35 million per year will provide a significant fillip to Ethiopia's budget for health, education, water and other vital services. Furthermore, if Ethiopia is to achieve its Millennium Development Goals — Goals set by creditors like Germany and the US — additional debt relief, new loans and aid are urgently needed.

Ethiopia: poor and of little geopolitical value

As we outline below, Ethiopia is one of the poorest countries in the world with poverty indicators substantially worse than those of the US and Germany. Furthermore, while her poverty indicators are similar to those of Iraq, the economic outlook for Ethiopia is dramatically different from that of Iraq. Despite remarkable efforts to achieve the conditions laid down by her creditors, exogenous shocks have seriously affected Ethiopia's economic recovery, and her ability to service debts. These shocks are as follows:

- The price of Ethiopia's major export, coffee, has fallen 73 per cent in the last 20 years and the climatic conditions of the continent seem to deteriorate every year.
- Coffee export prices are considerably lower today, at completion point, than the Bank and the Funded projected in 2001 when Ethiopia reached decision point^{iv} in the HIPC process.
- Because of the fall in coffee prices, the present value of Ethiopia's debt in relation to exports has increased by around 20 per cent.
- The Ethiopian drought of 2003 was one of the worst in history and cut agricultural production and exports dramatically — as well as necessitating large food imports.
- Moreover the international decline of interest rates has made Ethiopia's debt more expensive. This is because the current value of Ethiopia's debt is calculated by adding up future debt payments, and then *discounting* these payments by a chosen interest rate. The Bank uses an arbitrary rate — the average of most recent rates — to calculate the (net present) value of the debt. Interest rates have fallen over the last six months. Discounting *lower* interest rates from future debt payments has therefore *increased* the (net present) value of the debt.

- The fall of the dollar worsens the situation too, since the value of Ethiopia's revenues from exports (denominated in dollars) has fallen, in contrast to the rise in the value of her debts (denominated in non-dollar currencies).

Comparing Ethiopia to her creditors

Ethiopia has a population of almost 70 million. Nearly half, 44 per cent, live below the poverty line.

- GDP per capita is as low as US\$89 per year. This compares with the United States' GDP per capita of US\$36,300 and Germany's of US\$26,200 per year.^v
- Overall GDP, despite recent growth, is still lower than it was at the beginning of the nineties.
- The country is almost bottom of the UNDP's^{vi} human development league: 169th out of 175.
- Life expectancy at birth is 42 years, compared with 46 years average in the rest of the Sub-Saharan Africa; 77 years in the US; and 78.5 in Germany.^{vii}
- Infant mortality is as high as 116 per thousand compared to 6.7 per thousand in the US and 4.2 per thousand in Germany.^{viii}

In Ethiopia even for those who survive, life is a daily struggle:

- 47 per cent of children under five suffer from malnutrition, compared to one per cent of children in the US.
- Ethiopia has the third largest number of people living with HIV/AIDS of any country in the world.
- Only 24 per cent of Ethiopians have access to water sources, while all US citizens and all Germans do.

Contrasting attitudes to Iraq and Ethiopia

While trying to prevent Ethiopia from being granted less than US\$1 billion in additional debt relief US and German creditors have gone to considerable lengths to obtain international legitimacy for the cancellation of Iraq's debt. Official figures on Iraq's debt are dubious, but estimates vary between US\$120 billion and US\$200 billion. While there is a noticeable difference between the two countries in terms of per capita GDP (Iraq's GDP per capita is US\$2,400^x) other poverty indicators for Iraq are not dissimilar from those of Ethiopia. For example 32 per cent of Iraqi children are deemed to be malnourished^x and infant mortality is 107 per thousand — only slightly lower than Ethiopia's indicators.

However the dramatic difference between these poor countries lies in their respective economic outlooks. According to Forbes' newswire:

- Iraq's revenues from oil could rise to US\$16.6 billion in 2004.
- These revenues are projected to reach US\$21.1 billion in 2005.

In other words, oil revenues in Iraq for 2003 are projected to be almost three times Ethiopia's total GDP and 35 times the value of the Ethiopia's exports in 2002.

The Economist Intelligence Unit forecasts that Iraq's GDP will grow at rates ranging from 15 per cent to 18 per cent between 2000 and 2004.

Conclusion

The double standards applied by Western creditors to these two debtor nations reveal that debt relief no longer conforms to a set of rules agreed by the international community under HIPC — but instead is subject to arbitrary geopolitical considerations. We call on the international community to honour commitments made under the leadership of the German Chancellor, Gerhard Schroeder, in Cologne in June, 1999 — to deepen and broaden debt relief for countries like Ethiopia. Finally we call on the G8 finance ministers and IFI shareholders to honour their commitments to top up relief in the event of a debtor nation suffering external shocks.

Notes

ⁱ Briefing published 5 February 2004 by Jubilee Research at **nef** (the new economics foundation). **nef** is a registered charity founded in 1986 by the leads of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G7/G8 summit meetings.

ⁱⁱ The HIPC initiative, started in 1996, rich country leaders - and the international institutions which they control - committed themselves to providing partial debt cancellation under a comprehensive initiative designed to ensure a 'lasting exit' from unsustainable debt burdens for 42 heavily indebted poor countries (HIPC). In 1999, the HIPC initiative was 'enhanced' and given a new, expanded set of objectives: to deliver a 'permanent exit' from debt rescheduling; to promote growth; and to release resources for higher social spending in debtor countries.

ⁱⁱⁱ *Completion Point* is the final stage of the HIPC initiative where debts are irrevocably cancelled.

^{iv} At *Decision Point*, creditors commit to cancelling debt and some debt-service relief is provided.

^v The World Factbook, CIA

^{vi} United Nations Development Program

^{vii} The World Factbook, CIA

^{viii} The World Factbook, CIA

^{ix} The World Factbook, CIA, estimates for 2002

^x http://www.unicef.org/publications/pub_children_of_iraq_en.pdf