

IDB's Approach to MDRI: Debt Relief or Highway Robbery?

IDB joins MDRI

On 16th March the Inter-American Development Bank (IDB) at last confirmed that it too would join the Multilateral Debt Relief Initiative (MDRI), otherwise known as the Gleneagles G8 deal, which has provided extra debt relief to those (now 22) countries that have completed the tortuous HIPC process. The 4 Latin American/Caribbean countries that are amongst the 22 (and prospectively Haiti, which has reached Decision Point) have benefited much less from the MDRI to date than have the 18 African countries in the HIPC, because while the African Development Bank (AfDB) was part of MDRI from the beginning, this was not the case for IDB, to whom these 5 countries owed on average one third of all their debt.

However, as their press release now puts it, the "IDB will forgive approximately \$3.4 billion in principal payments and \$1.0 billion of future interest payments", backdated to 1st January 2007. This sounds good and certainly better than the first indications, since qualifying loans will be those drawn down by the end of 2004 (in line with the IMF and AfDB) and not 2003, in line with IDA), as was mooted in the first place.

Debt relief is distributed as follows:

	Debt relief (\$ billion)
Bolivia	1.000
Guyana	0.467
Honduras	1.400
Nicaragua	0.984

Haiti is not expected to complete the HIPC process until 2008 at the earliest, when it will gain debt relief of about \$525 million.

Or is it as good as it sounds? – The devil is in the modalities

Unfortunately, before opening the champagne, it is necessary to read the small print. The loans being forgiven were all from IDB's Fund for Special Operations (FSO), its concessional arm, which gives grants and subsidised loans to these 5 countries and 5 others¹ and there is only the vaguest talk of replenishment – the promise is to "assess, no later than 2013, the need for an eventual replenishment", as the press release puts it. In fact IDB's shareholders failed to agree on a scheme to raise new funds. Without new resources, this means that debt relief is being paid for by the 10 countries themselves, in terms of lower grants, cancelled and less concessional loans. This sounds like a zero-sum game, and is definitively against the spirit of MDRI, which was supposed to be additional.

In fact, if estimates published by Debt Relief International² are right, there will be an overall net **reduction** in the flow of resources to the 5 HIPC countries. According to their figures, in the first three years Bolivia and Honduras will have some extra funds (\$8 and 9 million a year), while Nicaragua and Guyana will lose \$5.6 and 4.7 million a year respectively. Haiti will also lose net resources because of the deal. In the following three or four years the situation is even less favourable and over a nine-year period, while they will not have the debts on their books, all countries lose out except Honduras.³

This is a deal which should be rejected.

¹ Dominican Republic, Ecuador, El Salvador, Guatemala and Paraguay

² http://www.hipc-cbp.org/files/en/closed/External%20Debt%20Strategy/External%20Debt%20Reference%20materials/MDRI_Feb_2007_En.pdf

³ The figures change from year to year and depend on how FSO resources are allocated.