From The Heavily Indebted Poor Country (HIPC) to the Multilateral Debt Relief Initiative (MDRI): Inclusive Neoliberalism and Accumulation by Subsidization

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Introduction

The Heavily Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) represent the international donor communities' latest response to the unsustainable debt levels of heavily indebted developing countries. The initial HIPC initiative was launched in 1996 but broadened into the Enhanced HIPC initiative in 1999, with the main aim of significantly reducing the net debt stock of 41 HIPCs and bringing their debt-to-export ratios below the critical threshold of 150 per cent (IDA and IMF 2006). However, in 11 out of 13 HIPC countries that fully benefited from the HIPC initiative, debt-to-export ratios have deteriorated since reaching the completion point.[1] What is more, overall public debt increased in many HIPC countries, often linked to state interventions on behalf of ailing private banks in recently deregulated financial markets and the lavish granting of new loans by multilateral institutions, and overall public debt service consequently failed to recede noticeably (Dijkstra 2008: 9).

The partial failure to significantly reduce debt service payments through the HIPC initiative prompted the introduction of the MDRI in the aftermath of the G8 summit in Gleneagles in 2005, with the aim to provide 100 per cent debt cancellation of eligible debt stock owed to four multilateral development institutions – the World Bank, the International Monetary Fund (IMF), the African Development Fund (ADF), and the Inter-American Development Bank (IDB) (Tan 2007), and thus to liberate additional government resources for social investments.[2] While the MDRI is considered to be separate from the HIPC initiative, both initiatives are nevertheless operationally linked, as a developing country's participation in the MDRI requires the prior fulfillment of all conditions attached to the HIPC initiative. The World Bank and the IMF estimate that both the HIPC and the MDRI will clear a total of US$ 90 billion in debt owed by 41 participating developing countries to bilateral and multilateral creditors (IDA and IMF 2006: 27ff.).

While debt relief has been widely welcomed by both academic voices and within civil society, this paper takes a predominantly critical stance and argues from a neo-Gramscian perspective that the MDRI and the HIPC debt relief initiative represent the latest effort by the International Financial Institutions (IFIs) to lock developing countries in to a trajectory of neoliberal reforms, by providing significant financial incentives for the continued implementation of slightly modified inclusive-neoliberal policies (see below). Countries that qualify for the HIPC and the MDRI are expected to pursue IMF- and World Bank-supported adjustment and reform programs, and debt relief is conditional upon the implementation of a wide range of market-enabling reform policies,

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[1] After qualifying for the HIPC initiative, all countries first reach what is called decision point, at which time trigger conditions for being granted debt relief are established. After three years of compliance with World Bank and IMF programs, observance of all trigger conditions, and the implementation of a Poverty Reduction Strategy Paper (PRSP), countries reach the decision point. This is the point when all HIPC debt is irrevocably cancelled.

[2] The IDB was initially not part of the MDRI, but in 2007, after considerable pressure from Latin American governments, issued a statement announcing the decision to extent debt cancellation to five eligible Latin American countries – Bolivia, Guyana, Haiti, Honduras, and Nicaragua (Tan 2007: 1).

similar to what has become known under the label of structural adjustment policies (SAPs).

However, in spite of the attempt to instrumentalize debt relief for neoliberal ends, the paper nevertheless suggests that both debt relief initiatives signal the emergence of a slightly modified, more inclusively oriented neoliberal development regime that increasingly provides elements of material subsidies to the poor, arguably in an effort to soften the negative social impacts of neoliberal reforms and rebuild support for the IFI's interventions into developing countries (Ruckert 2007; Craig and Porter 2006; Best 2007). This is best evidenced by the IFIs expectation that resources freed up by debt relief be channeled into poverty reduction programs (IDA and IMF 2000). Hence, the paper suggests that we are currently in the midst of entering a new phase of neoliberal policy, a phase of more socially interventionist and ameliorative forms of neoliberal governance, so that those marginalized or dispossessed by neoliberalization processes of the 1980s and 1990s become better integrated, regulated and controlled through various (thus far however largely shallow) inclusion processes (Graefe 2005). This has been discussed in the literature in terms of a turn towards inclusive neoliberalism (Craig and Porter 2005 and 2006; Ruckert 2006 and 2007), which can best be understood as combining the IFI's recent positive-liberal emphasis on the state's role in poverty reduction, empowerment and participation with a staunchly neoliberal macroeconomic framework (Craig and Porter 2006: 12). From a neo-Gramscian perspective, the emergence of inclusive-neoliberal policies can be understood as being part of the attempt to bolster up support for increasingly contested neoliberal reform policies in developing countries, and ultimately turn a non-hegemonic neoliberal into a hegemonic inclusive-neoliberal world development order.

To this end, the HIPC and the MDRI are directly linked to country-owned Poverty Reduction Strategy Papers (PRSPs), which are supposed to outline how debt relief will be invested in poverty reduction programs, especially through investments in the human capital of the poor by way of conditional cash transfers (CCTs). Thus, while conditionalities attached to the HIPC and MDRI continue to promote the commodification of all aspects of social life and the colonization of the life-world by markets, there is a new-found emphasis on social investments, evidenced by the extension of conditionalities attached to debt relief into the sphere of social reproduction and the governance of the poor. 'Accumulation by dispossession', *i.e.* the appropriation of communal wealth through privatization and commodification (Harvey 2003), is increasingly complemented by what I have called elsewhere 'accumulation by subsidization' (Ruckert 2007), transfer payments to the poor who cannot become 'normal customers' in recently privatized markets. However, these changes do not amount to a paradigm shift, but should rather be seen as experimental forms of poverty management within the neoliberal paradigm, with the aim of further strengthening and entrenching its basic principles (Maxwell 2003).

In substantiating this argument, the paper unravels as follows: first, it briefly elaborates the theoretical point of departure, by connecting the legitimacy crisis of neoliberalism, the emergence of more inclusively oriented development policy and the implementation of debt relief within a neo-Gramscian theoretical framework. The paper next elaborates some of the key aspects of both the MDRI and the HIPC debt relief initiative, and shows how debt relief has expanded the scope of social engineering and interference into the domestic affairs of heavily indebted developing countries. The emergence of inclusive-neoliberal conditionality and policy will then be illustrated and empirically substantiated through a discussion of Nicaragua's experience with the MDRI and the HIPC initiatives, and the poverty reduction strategies directly linked to both debt relief schemes. This discussion will underscore the continuities in the macroeconomic realm, while unearthing the discontinuities in the social realm with previous generations of IFI conditionality.

Making Neoliberalism Inclusive and Hegemonic through Debt Relief ?

The paper departs from a neo-Gramscian theoretical perspective in analyzing the transformations of neoliberalism linked to the implementation of debt relief and national PRSPs. From a neo-Gramscian perspective, the emergent world development order of the early 21st century can best be characterized as non-hegemonic in character (Gill 2000). Neoliberal policies have been more and more contested on the ground, in both developed and developing countries, and ruling social forces increasingly have to resort to the use of coercion in the governing of social relations and the resolution of conflicts (Soederberg 2004). Along this argumentative line, Stephen Gill, has recently suggested that the current world order is characterized by supremacy, taking the place of hegemony. Where hegemonic orders are inclusive and intend to incorporate subordinate interests, supremacist strategies rely more openly on coercion and seek to develop domination over apparently scattered and atomized sets of interests (Gill 1993 and 2000). In the area of development, non-hegemony is best expressed by the growing unwillingness of developing country governments to voluntarily implement SAPs (Khan and Sharma 2001), the rapidly growing opposition to neoliberal restructuring in developing countries (Prempeh 2006), and the attendant legitimacy crisis of the IFIs (Best 2007). This legitimacy crisis has manifested itself in large protests at the annual meetings of both institutions and increasingly critical media coverage on the effects of IFI policies in the developing world (Gills 2000), but also in the growing unwillingness of many developing country governments to continue to implement SAPs, evidenced by a significant decrease in the compliance rate with IFI conditionality in the 1990s (Khan and Sharma 2001).

In the past, hegemonic world orders, such as the embedded liberal order which predominated from the end of World War II until the early 1970s, have materialized through the extension of the hegemony of leading domestic social forces outwards into the international system (Rupert 1995). However, it is my claim that at the current conjuncture international institutions, such as the World Bank and the IMF, play an increasingly important role in the attempt to produce hegemony through the implementation of what I consider to be inclusive-neoliberal practices and policies (Ruckert 2006 and 2007). Thus, on the international stage, the IFIs are key actors in the attempt to turn the current non-hegemonic neoliberal into a hegemonic inclusive-neoliberal order.

In building on Antonio Gramsci's work, Robert Cox has noted that a key element of hegemony production is to absorb counter-hegemonic ideas and concepts, to make it seem as though the concerns of critics are being heard and taken seriously (Cox 1983). However, in this process, the meaning of counter-hegemonic ideas and concepts is generally transformed to fit the interests of the hegemonic coalition. This mechanism of what Gramsci originally called *transformismo* could be applied to debt relief, which was initially promoted by a coalition of counter-hegemonic social forces in developed and developing countries, but arguably has been instrumentalized by the IFIs in the PRSP process, to be employed as an incentive for developing country governments to implement neoliberal reforms that were previously opposed. As will be highlighted later in the paper, in Nicaragua debt relief served in various ways to embed neoliberal practices, as tight fiscal policy, trade liberalization, and the privatization of public utilities were 'trigger conditions' for HIPC and MDRI debt relief.

What is more, reviews of the HIPC initiative suggest that the experience of Nicaragua is not an exception but rather the rule, as most HIPC decision point documents contain conditions linked to utility privatization and trade liberalization, and other contested elements of neoliberal reform processes (Pearce 2006). Thus, the IFIs have arguably co-opted ideas surrounding debt relief and turned debt relief into a tool to further tighten their grip over developing countries and to oversee the implementation of slightly modified inclusive-neoliberal policies. The following section will briefly delineate the emergence of both debt relief initiatives, with particular focus on the ways in which debt relief is delivered.

From the HIPC initiative to the MDRI

The original HIPC initiative was launched in 1996 as part of an effort to reduce the stock of debt and debt service payments of developing countries, with the main aim of removing the debt overhang of participating countries, through reducing the net present value (NPV) of external debt to below 150 per cent of exports (Dijkstra 2008: 100). As the IDA and IMF note, "its objective was to reduce eligible countries' debt burdens to the thresholds established under the Initiative, *subject to satisfactory policy implementation* [A.R.]" (IDA and IMF 2006: 1). The countries eligible under the initiative are highly indebted developing countries, which in the past pursued or adopted structural adjustment policies supported by the IFIs, and thus exhibit a track record of successful cooperation with the IFIs. Participating countries could benefit from the HIPC initiative, according to the IMF, through an ability "to put to good use the resources freed by debt relief" (ibid.).

The original HIPC initiative was substantially broadened in 1999 as it was widely acknowledged that debt relief offered through the original HIPC initiative had been insufficient, and that multilateral creditors needed to be included into debt relief schemes (Dijkstra 2008: 101). What is more, the Enhanced HIPC initiative substantially broadened the objectives of debt relief, by moving beyond the reduction in debt overhang as the principle goal, and focusing instead on releasing resources for higher levels of social spending and promoting economic growth (ibid.: 109). In order to achieve this goal, the principle of "aid additionality" requires that HIPC debt relief be additional to regular aid flows, which recent evaluations confirm to be the case for all HIPCs (IEG 2006). Finally, the HIPC initiative implies a progressive rupture from past debt rescheduling efforts, by focusing on debt forgiveness rather than rescheduling and by promoting debt stock relief rather than flow relief (Dijkstra 2008: 107).

Following this logic, the IFIs expected that social expenditure would increase significantly in all 41HIPC countries due to savings in interest payments, and indeed the IMF and IDA have recently concluded that "the volume of debt relief has increased significantly since the inception of the HIPC initiative in 1996, herby reducing HIPC's debt service burdens and allowing them to finance increased poverty reduction efforts"

(IDA and IMF 2006: i). However, while the HIPC initiative has resulted in a drastic reduction of the stock of debt of participating countries, by almost 90 per cent (IDA and IMF 2006: i), this however has not translated in all countries into a reduction in the flows of interest payments. According to Jubilee Debt Campaign, on average, interest payments were reduced by 26 per cent, which in the eyes of Jubilee is not nearly enough to achieve the MDGs (Pearce 2006). However, some HIPC countries did not experience even a modest decline in external debt service, which is likely linked to abundant new loans given to various HIPCs by both the World Bank and the IMF (Dijkstra 2008). This fact raised important questions about the claimed sustainability of the debt regime in the aftermath of the HIPC debt relief scheme, and meant that the broadening of debt relief resurfaced on the political agenda in 2005.

Under British presidency at the G8 Summit in Gleneagles in 2005 and amidst ongoing civil society pressure to broaden debt relief, political leaders decided to increase debt relief to HIPCs, through including various multilateral creditors into debt relief efforts. The MDRI entails debt relief to all HIPCs that have already reached completion point of the HIPC initiative, and guarantees the automatic cancellation of 100 per cent of all pre-2005 IMF, IDB, and AfBD debt, and all pre-2004 World Bank debt (Tan 2007: 3). As multilateral loans have made up the lion's share of new indebtedness for most HIPCs since the early 1990s (Dijkstra 2008: 119), the MDRI was expected to reduce the external debt service burden more significantly than the HIPC initiative, and thus liberate additional government resources for investments into poverty reduction efforts, previously diverted to debt service payments (IDA ad IMF 2007). However, recent evaluations emphasize that the MDRI does not necessarily add additional resources to government budgets, as debt relief often goes hand in hand with cuts in new concessional finance from multilateral institutions (Eurodad 2007: 8). This might become an even bigger problem in the future if IDA resources drained by debt relief will not be replenished. At the moment, despite having promised to fully compensate IDA, bilateral donors have not lived up to their pledge, and a US$ 2 billion shortfall in replenishing IDA by 2015 can be observed (ibid: 16). This could eventually translate into a contraction in concessional aid flows to developing countries. As Eurodad notes: "This means that IDA-only countries could face moderate to high declines in their level of new IDA-allocations over time as a result of the MDRI if donors do not fully compensate or replenish IDA" (as promised at the G8 meeting) (Eurodad 2007: 16).

While it is clear that debt relief delivered through the HIPC and the MDRI has the potential to liberate (additional) resources for much-needed social investments, it is however imperative to note that debt relief is employed instrumentally by the Bank and the Fund. Deb relief provides a strong incentive for developing countries to comply with IMF and Bank demands on implementing neoliberal policies, such as privatization, liberalization, and deregulation, in times of growing resistance to neoliberal forms of governance. As Jubilee Debt Campaign reports, the IFIs generally attach between 10 and 20 'trigger conditions' to debt relief, the details of which vary for each country (Pearce 2006: 3). However, conditions generally include technical reforms of public expenditure management and governance (such as budget tracking exercises), meeting specific targets related to health and education (such as on spending, teacher numbers or vaccination rates) and, most importantly, structural reforms (such as the privatization of public utilities and the further liberalization and deregulation of developing country economies) (ibid.).

As a result, conditions attached to debt relief have arguably become more extensive than ever, increasingly intruding into the realm of social policy and also adding process conditions linked to civil society participation in PRSP elaboration. In practice, one of the key conditions of HIPC debt relief is that governments demonstrate an increase in poverty reduction expenditure as share in total government expenditure. This is meant to ensure that debt relief resources are predominantly invested in poverty reduction programs (Dijkstra 2008: 116). Through extended conditionality, the IMF and the World Bank engage in micro-management of developing countries at an unprecedented scale, while, at the same time, claiming that conditionality has been streamlined with the introduction of debt relief and the PRSP approach. However, the Independent Evaluations Office (IEO) of the IMF has recently acknowledged the wide gap between the IFI's rhetoric of policy ownership and its intrusive operational activities on the ground where it continues to impose little modified conditionalities (IEO 2007).

Moreover, the way debt relief is structured makes it easy for the IFIs to influence developing country economic and social policies. To enter the HIPC initiative (called 'decision point'), a country must have been in good standing with the IFIs for three years. After having reached decision point, the developing country starts receiving interim-debt relief from the IFIs, signifying a reduction in debt service payments which is supposed to free up additional resources for social spending. However, no debts are actually cancelled until the country reaches the 'completion point' of the HIPC initiative three years later, and debt relief can be suspended at any time. The conditions for reaching debt cancellation are set at decision point, and debt cancellation will only be forthcoming if all trigger conditions have been met. Additionally, countries hoping to benefit from debt relief must have an ongoing agreement with the IMF but also elaborate a PRSP in which they show how savings from debt relief will be invested in poverty reduction programs, and produce at least one PRSP progress report (Dijkstra 2008: 111).

In this context, it is important to point out that most of the 26 HIPC countries have had debt relief suspended because of failure to meet IMF economic targets or comply with structural conditionalities at some point or another (Pearce 2006: 4). What is more, half of the eligible countries have not reached completion point of the HIPC initiative, most commonly linked either to the lack of an IMF agreement and failure to fully comply with IMF conditionality, or the unwillingness to comply with all trigger conditions set at decision point. As Dijkstra notes, "the countries that are in the interim period between decision and completion point, usually have a problem with macro-economic management, with implementing structural reforms or with developing a full PRSP with broad-based participation (Dijkstra 2008: 107). Thus, the IFIs have made extensive use of their ability to put pressure on developing countries by threatening to suspend debt relief and withhold debt cancellation, largely on the backs of the poor that hope to benefit from increases in social spending. By interrogating Nicaragua's experience, the following discussion will further substantiate the claim that the Bank and the IMF have continued to attach, though somewhat modified and more inclusively oriented, neoliberal conditionalities to countries participating in debt relief schemes.

Nicaragua's Experience with the HIPC and the MDRI

Nicaragua initially accumulated its unsustainable level of debt stock, similar to most other developing countries, during the lost decade of the 1980s, in the aftermath of the Federal Reserve's decision to drastically increase interest rates so as to drive stagflation out of the US economy, and in the midst of an economic blockade by its most important trading partner, the United States. What is more, various external shocks, such as the severe recession in the world economy in the early 1980s, the attendant steep decline in the terms of trade for key Nicaraguan export products (by almost 30 per cent), and currency devaluations, all contributed to the rapid accumulation of debt (Dijkstra and Evans 2003: 2). At the same time, the Sandinista government throughout the 1980s invested heavily in social infrastructure, hoping that social investments would generate significant returns in the form of higher labor productivity, and thus contribute to economic growth which would allow easy repayment of debt. However, the US financing of an armed opposition and the outbreak of the Contra War in 1985 signified a massive diversion of resources from productive to unproductive use in the second half of the 1980s. In this unfavorable environment, external debt rose from a manageable US$ 1,8 billion in 1980 to US$ 10, 7 billion in 1990, representing more than seven times the country's GDP and twenty seven times the value of its annual exports (Dijkstra and Evans 2003: 4).

Despite having signed a number of rescheduling agreements with Paris Club members[3] and having been forgiven a significant share of its external debt throughout the 1990s, totaling more than US$ 7 billion, large amounts of predominantly multilateral loan inflows meant that foreign debt stock declined only mildly, and by the late 1990s Nicaragua's debt still stood at an unsustainable level (IDA and IMF 1999: 19). At the end of 1998, the stock of Nicaragua's debt is estimated to have been approximately US$ 6 billion, including US$ 2.1 billion in arrears to non-Paris Club bilateral official and commercial creditors (IDA and IMF 1999: 19). In 1998, Nicaragua's debt-to-export ratio reached the astronomical level of 600 per cent and the debt–service ratio hovered around a devastating 32 per cent. As a result, there was little hope that Nicaragua would be able to pull itself out of this debt trap (IDA and IMF 2004: 22).[4] Nicaragua's debt is distributed between multilateral creditors (26 per cent), Paris Club official creditors (26 per cent), official bilateral creditors (46 per cent), and commercial creditors (5 per cent) (ibid.).

Moreover, as Oxfam suggests, the actual debt repayments in the late 1990s were two and a half times the spending in health and education combined (Oxfam 2006). This diversion of resources was taking place in a situation characterized by high levels of extreme poverty in the absence of adequate social service provision by the state. As pointed out earlier, the HIPC initiative aims to drastically reduce the debt stock and

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[3] The Paris Club is an informal group of financial officials from the world's 19 richest countries which meet on a regular basis in Paris to discuss the restructuring of bilateral debt owed by developing countries. The Paris Club negotiates solely with individual countries and has since its inception in 1956 at various times assisted in the restructuring of Third World debt.

[4] The debt-to-export ratio is defined by the IMF as the ratio of total outstanding debt at the end of the year to the economy's exports of goods and services for any one year (IMF 2003a: 173). Generally, it is considered problematic if a debt-to-export ratio climbs above 150 per cent. The debt-service ratio is defined as the ratio of external debt-service payments of principal and interest on long-term and short-term debt to exports of goods and services for any one year (*ibid*.).

interest payments of developing countries so as to liberate economic resources in the attempt to reduce poverty and enhance social investments. It is obvious that debt relief is an important pre-condition for Nicaragua to climb up the economic ladder. Moreover, debt relief has the potential to free up significant resources for poverty-related spending, as the discussion of Nicaragua's fiscal policy later on in this chapter will highlight.

Nicaragua was scheduled to reach the decision point of the HIPC initiative at the end of 1999, but due to the government's failure to meet certain targets of the Enhanced Structural Adjustment Facility (ESAF) agreement with the IMF and growing concerns regarding progress in the area of governance, it did not do so until the end of 2000 (Dijkstra and Evans 2003: 23). Under normal circumstances, the conditions for reaching decision point include two three year periods of compliance with IMF and World Bank structural adjustment programs, as well as the elaboration of a national PRSP. Since Nicaragua could not show six years of compliance with the IMF as both its first and second ESAF had broken down, the donors set specific conditions for the decision point, apart from the general requirement of the elaboration of a participatory PRSP (ibid.). Nicaragua first had to return to an "on track" position with the IMF, and had to implement an extensive reform program, covering privatization and liberalization, public sector reforms and social welfare reforms, as discussed in more detail below.

Contrary to the idea of HIPC that there would be an *ex post* assessment of general performance in terms of reforms, combined with an *ex ante* outlining of the plans for poverty reduction, this implied that Nicaragua was subject to *ex ante* conditionality with respect to both macroeconomic targets and social and structural reforms (Dijkstra and Evans 2003). Interestingly, the financial community decided to allow Nicaragua to participate in the HIPC initiative despite strong concerns regarding the governance style and severe corruption allegations against the Alemán administration.[5] As Castro-Monge argues, "final arrival at the decision point was less due to the resolution of all outstanding concerns than to the creditor community's desire to ensure that at least half of the HIPCs had reached decision point by the close of 2000" (Castro-Monge 2001: 425).

In Nicaragua, total debt relief through the Enhanced HIPC initiative amounts to approximately US$ 4.5 billion, representing a reduction of 72 per cent of the net present value of Nicaraguan debt (Trocaire 2004: 16). External debt as a percentage of Nicaragua's export earnings has been reduced from 540 percent in 1999 to a level below the Enhanced HIPC target of 150 percent by 2005. Moreover, debt service as a percentage of government revenue declined sharply from 20 percent in 2000, reaching approximately 9 percent in 2007, and is expected to decline further in the near future (IMF 2006). This translated into a significant reduction in interest payments in the PRSP period (1999-2004) as compared to the SAP period (1990-98), as average per capita debt service declined from US$ 53.4 in the SAP to US$ 46.8 in the PRSP period (Cuesta 2007: 348). However, Nicaragua only received the bulk of the assistance under the enhanced HIPC Initiative after satisfying a number of conditions, including adoption and implementation of a participatory poverty reduction strategy paper. In this light, debt relief could be seen as a tool to further tighten the grip of the IFIs over Nicaragua by

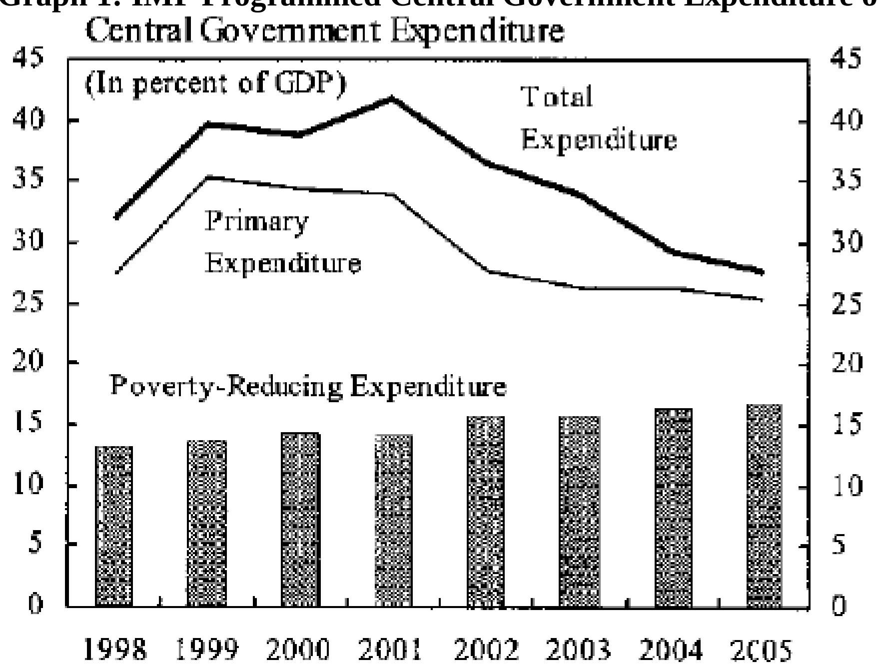
[5] Donors were increasingly concerned with Arnoldo Alemán's governance style and the rapidly increasing corruption in Nicaragua under his rule. In particular, it was assumed that Alemán misappropriated foreign aid that was provided as emergency funding after Hurricane Mitch devastated Nicaragua, to the advantage of his political supporters and family clan (Dijkstra 2005: 449).

providing a strong incentive for the implementation of slightly modified neoliberal policies. The following discussion will examine the extent to which neoliberal conditions remained attached to debt relief, notwithstanding the discursive shift in the IFIs' development thinking and ongoing claims about the streamlining of conditionality and broader policy ownership.

Macroeconomic Continuity and the Carrot of Debt Relief

In the macroeconomic realm, the most important condition for Nicaragua to reach completion point represents maintenance of a stable macroeconomic framework and satisfactory performance under the IMF's Poverty Reduction Growth Facility (PRGF) (IDA and IMF: 2000: 17). The PRGF itself sets the overall macroeconomic framework for Nicaragua, and deviates little from previous generations of policy conditionality. In particular, the PRGF promotes "sound macroeconomic policy", with inflation rates in the low single digits, and maintains the need for further fiscal consolidation to "rein in unsustainable government spending" by the Nicaraguan bureaucracy (IMF 2003b: 16 and 23). In this context, it is important to note that Nicaragua's total government expenditure was expected by the IMF to decline steeply in percent of GDP from roughly 40 per cent in 2001 to 27 per cent by 2005 (see graph 1 below). This however will make it hard for the Nicaraguan state to fund social investments and represents a prohibitively low level, particularly in comparison to developed countries where the total government expenditure in per cent of GDP often hovers above 50 per cent, especially in countries with strong welfare policies.

Graph 1: IMF Programmed Central Government Expenditure over Time



Source: IMF 2003b

While it might be understandable to force developing countries to observe fiscal prudence, cut government spending and reign in inflation once they reach intolerably high levels, it is not comprehensible that monetary policy is solely focused on the goal of price stability, fiscal prudence, and expenditure contraction, and blatantly disregards all other social objectives (Gottschalk 2005). This represents a clear contradiction in the inclusive-neoliberal paradigm, as stringent monetary and contractionary fiscal policy make it difficult to increase poverty-focused government spending and, as such, are counter-productive to achieving poverty reduction goals. Nevertheless, it has to be acknowledged that while total government expenditure is expected to contract sharply, poverty-reducing expenditure is programmed to increase, a first indicator of the IFI's turn towards inclusive neoliberalism. Finally, the PRGF also continues to promote trade liberalization and suggests that "[c]ontinued trade liberalization and regional integration is to provide the basis for growth and efficiency gains in the tradable sector" (IMF 2003b: 16).

In addition to adhering to the PRGF, the IFIs have also set specific *ex ante* economic conditions in the HIPC decision point document (IDA ad IMF 2000) that predominantly relate to the privatization of public utilities and the pension system. The privatization of public utilities has remained a politically sensitive topic in Nicaragua throughout the 1990s, and the IFIs have made various unsuccessful attempts at convincing the Nicaraguan parliament to privatize the most profitable utility providers, by repeatedly linking privatization to concessional IFI finance. Indeed, many social struggles and street protests in Nicaragua have been directly linked to privatization policy, and NGOs and unions have been successfully fighting the privatization of the telecommunications, electricity and water sector demanded by various IMF agreements throughout the 1990s (Bertelsen and Jensen 2002: 57).

In this context, it is disconcerting that the privatizations of the water, electricity and telecommunication sector represented key structural reforms for Nicaragua to be able to reach completion point of the HIPC initiative (IDA and IMF 2000: 17). While the privatization of the telecommunications sector was swiftly completed, with the sale of the remaining shares of ENITEL finalized by 2005, both water and electricity privatization again encountered strong resistances within civil society. The previously achieved vertical separation of the electricity sector made it easy to quickly proceed with the privatization of the highly profitable electricity distribution units which, despite strong civil society concerns, were all bought up by the same Spanish multinational company, thus turning Union Fenosa into a monopoly provider of electricity.

However, aware of the social impacts of privatization and in line with the recent inclusive turn in IFI policy, the IFIs demanded that electricity prices be frozen for the poor and that electricity consumption of the poor be cross-subsidized in the case of price increases. The IFI's proposal suggests that the heaviest users of electricity, such as industry and rich households, should predominantly shoulder the burden of price increases linked to privatization (IDA and IMF 2000). This is supposed to prevent the exclusion of the poor that currently have access to electricity from being priced out of the market, and thus marks an important element of inclusive-neoliberal policy. However, not surprisingly, electricity rates sky-rocketed in the aftermath of the privatization, oftentimes exceeding amounts approved by the Nicaraguan Energy Institute, especially in rural areas where increases of 30 to 40 per cent have been the norm (Romano 2005).

In the water sector, the decision point document stipulates that water and sewage rates be adjusted upwards until marginal costs are fully recovered so as to make the water sector attractive to private investors. Moreover, the government is expected to "offer to private investors long-term concessions for regional water and sewerage sub-systems in León, Chinandega, Matagalpa, and Jinotega" (IDA and IMF 2000: 15). Finally, the privatization of the pension system represents by far the most controversial condition attached to debt relief in the case of Nicaragua. As Dijkstra has noted, the privatization of the pension system directly violates the Nicaraguan constitution, and as such, signifies an unprecedented interference into the domestic affairs of Nicaragua (Dijkstra 2008: 114). Nevertheless, the IFIs expected Nicaragua to "introduce a satisfactory pension system of funded, private sector-managed, and individual accounts" (IDA and IMF 2000: 17).

However, various elements of the privatization program have not actually been followed through as envisaged by the IFIs since major social protests have made it virtually impossible for the government to quickly move forward with the full privatization in these areas. Thus, water privatization was put on the back burner, and in 2003 a law was passed unanimously by the Nicaraguan National Assembly that suspended all private concessions involving water uses until a national debate about the issue has taken place and until a national consensus has been reached (Romano 2005). Similarly, the privatization of the electricity generating units was not completed within the stipulated timeframe. At the same time, while the National Assembly passed the controversial social security law in preparation for the privatization of the pension system, once Nicaragua was granted full debt relief in 2005, the National Assembly did not approve further operational measures necessary to carry out the actual privatization.

This confirms cosmetic implementation of required neoliberal reform conditions and speaks to the issue of lack of ownership of policies, and underscores the fact that even the linking of neoliberal reforms to debt relief does not ensure the implementation of IFI policy choices. In fact, in 2004 the IMF introduced a waiver in its HIPC completion point document so as not to delay the full implementation of debt relief, despite Nicaragua's failure to comply with some of the privatization requests (IDA and IMF 2004). Thus, despite the claim that conditionality would be 'streamlined' through the PRSP process, the IFIs have attached numerous conditionalities to debt relief and other IFI funding that are directly related to the highly contested privatization of public utilities. In fact, through linking privatization to debt relief, the IFIs have finally succeeded in breaking open some of the most profitable sectors of the Nicaraguan economy, such as telecommunications and electricity distribution, to outside investors and pushed through the Nicaraguan parliament much disliked and contested privatization reforms.

The Expansion of Social Investments through Debt Relief

As suggested earlier, policy conditionalities have more and more started to intrude into the social realm in the context of the HIPC initiative. In the case of Nicaragua, there are a number of conditionalities attached to debt relief that are directly related to poverty reduction efforts, the inclusive side of the current IFI neoliberal policy model. Interrogated from a neo-Gramscian perspective, this arguably represents an attempt to make neoliberalism more hegemonic, by providing (although currently very limited and targeted) material incentives to the most disfavored regions and members of Nicaraguan society in order to redress poverty from within a neoliberal framework.

The most important social condition is undoubtedly the elaboration and successful implementation of a participatory Poverty Reduction Strategy Paper (PRSP) which details how debt relief savings ought to be invested. In fact, more than 50 per cent of all debt relief funds were expected to be allocated to new social initiatives and compensation strategies (Government of Nicaragua 2001: 43). Thus, HIPC conditions also include requirements for the use of savings originating from the interim debt relief provided by multilateral institutions. Where earlier program aid from the multilateral institutions consisted of freely spendable resources, debt relief must be spent for specific projects and actions, and is subject to detailed reporting and monitoring (Dijkstra and Evans 2003).

Interestingly, various Nicaraguan NGOs have complained that a large part of the resources liberated by debt relief was (mis)used to reduce the astronomical domestic government debt, which is the direct outcome of the socialization of the costs related to the failure of the banking system in the aftermath of IFI promoted financial deregulation in the early 2000s (Bradshaw, Linneker, and Quiros Viquez 2004).[6] Nevertheless, approximately 40 per cent of debt relief savings was directed towards poverty reduction efforts, in accordance with projects and programs identified in the PRSP (ibid.: 3). In the period from 2001 to 2005, Nicaragua saved approximately US$ 980 million in interest payments due to HIPC. In line with IFI expectations, poverty related spending rose in Nicaragua from 11.3 per cent of GDP in 2001 to 13.6 per cent in 2005, while expenditure in the education and health sector increased noticeably during the same time span, climbing from 3.6 to 4.7 per cent of GDP in education (representing an additional $US 80 million) and from 2.8 to 3.4 per cent in health (adding another $US 50 million to the meager health budget) (Government of Nicaragua 2005: 125). Importantly, this happened during a period in which Nicaragua had to make significant cutbacks on government expenditures as it was running large balance of payment and budget deficits.

What is more, comparing average social spending in the SAP period (1990-98) with the PRSP period (1999-2004), it becomes clear that social spending has indeed increased significantly with the implementation of debt relief, as per capita health and education expenditure climbed from US$ 58 to US$ 76.2, representing an increase by more than 20 per cent (Cuesta 2007: 348). This is however not surprising, given that protection (and increase over time) of poverty-related spending and the expansion of social service coverage to the poor are also conditions attached to Nicaragua's Poverty Reduction Support Credit (PRSC) and the PRGF, and as such a precondition for further collaboration with the IFIs and access to all concessional finance (Dijkstra 2005: 456).

Conforming to the World Bank's predilection for the targeted provision of social services, the most important new social program financed by debt relief is the pilot social safety net, or *Red de la Proteccion Social* (RPS), whose implementation is linked to the IFI's desire "to promote human capital development and social protection", with "the adoption of an action plan to introduce an effective social protection program, based on the results of a pilot program started in 2000" as a key trigger condition of debt relief (IDA and IMF 2000: 17). Hence, a key pillar of Nicaragua's PRSP is the channeling of funds through conditional cash transfers (CCTs) associated with the RPS, which was first

[6] While a Bank representative mildly criticized this 'misuse' of HIPC funds, the IMF supported it, maintaining that swapping internal for external debt strengthens the position of the Central Bank and encourages macroeconomic stability, both indirectly contributing to poverty reduction (Interview with World Bank and IMF representative, 17.08.2005, Managua).

launched in 2000. CCTs currently represent the Bank's favorite delivery mechanism of social services and are considered to be the panacea to poverty reduction efforts. Social investments through CCTs focus on the human capital formation of children and are designed to promote their productive capacities (Luccisano 2006: 59). CCTs are popular with the World Bank as they enable governments to combine the market-oriented provision of social services with subsidies to the poor, and thus to perpetuate the downloading of responsibility for social reproduction from the state to the private sector and household, while contributing to improvements in the social track record of neoliberal reforms. Moreover, CCTs imply an active social policy that does not envision social protection from the market, but rather understands the goal of social policy to lie in integrating the poor with increased capabilities into market structures (Jenson and Saint-Martin 2003: 83), and hence is fully compatible with the Bank's neoliberal vision.

Following this logic, Nicaragua's RPS offers social assistance in an attempt to improve the well-being of the extremely poor, while stimulating the accumulation of the 'human capital' of impoverished children. The PRS is geared towards families living in extreme poverty, and provides means-tested cash transfers to the mothers of each chosen household. The cash transfer consists of two main components: the *Bono Alimentario*, a 'food security transfer' paid out on a bimonthly basis to all participating households, worth US$ 224 per annum; and the *Bono Escolar*, the school attendance transfer, paid out on a bimonthly basis to those households with children aged 7-13 who have not yet completed fourth grade of primary school, worth US$ 112 per annum. The attendance school transfer also carries an additional teacher transfer (US$ 60 per annum), providing an incentive for teachers to monitor and report the absence of children from school, and a school supplies transfer (US$ 21 per annum), given at the beginning of the school year. Thus, the maximum support through the SPN amounts to US$ 362 per annum and per household (IFPRI 2004: 8).

The money transfers associated with the RPS are, however, not unconditional, and numerous strings are attached to the participation in the program, representing new disciplining and responsibilizing tools at the disposal of the IFIs. To qualify for the RPS, participating households have to commit to sending their children to school on a daily basis and to visiting health centers regularly so that children receive vaccinations, clearly a direct attempt to improve the social indicators linked to the MDGs. Moreover, households must agree to participate in educational sessions on a wide range of issues, including nutrition, sexual behavior, reproductive health, family hygiene, and child care, in exchange for monetary rewards (IFPRI 2004). What is more, there are serious gender implications with CCTs, as women tend to assume the responsibility for program compliance, and thus absorb the added work-burdens associated with CCTs (Luccisano 2006).

All in all, the social safety net that is promoted through debt relief and implemented under the PRSP is a rather limited and fragmented response to the social dislocations associated with neoliberal restructuring, as it currently reaches less than 5 per cent of the extremely poor, and hence represents "a drop in the ocean of poverty", and may better be understood as an instrument of political crisis management than a serious social policy (Jayasuriya 2006: 82). What is more, the targeted and conditional inclusion of the poor directly undermines rights-based approaches to welfare, as "welfarism is transformed from claims that arise out of the political standing of actors (individuals or states) to claims that are contingent on the prior and continuing performance of certain obligations" (*Ibid*: 84). Finally, while CCTs directly receive funding from the World Bank, the management of CCTs is shared between the state, transnational development agents, the market, and the third sector, with public civil society partnerships becoming increasingly common (Luccisano 2006). Thus, CCTs continue to shift responsibility for social provisioning from the state to the non-state sector, and increasingly integrate counter-hegemonic agents, such as local NGOs, into the delivery of social services. In Nicaragua, for example, various small local and larger international NGOs are directly involved in delivering health care through Nicaragua's RPS, arguably in an effort to co-opt these counter-hegemonic actors into a slightly modified neoliberal framework.

The MDRI and Additional Debt Relief for Nicaragua

As noted previously, the MDRI does not include any new conditionalities but rather aims to liberate additional resources in countries that have completed the HIPC initiative, by fully canceling the debt that developing countries owe to four multilateral institutions. In the case of Nicaragua, the MDRI translated into debt cancellation of IMF and IDA debt in the amount of almost US$ 1 billion. What is more, the inclusion of the IAB into the MDRI means that an additional US$ 984 million will soon be written off (IDA and IMF 2006). However, it is currently unclear to what extent the MDRI in the case of Nicaragua has added additional resources to the government budget, as new loans from the IFIs have generally accompanied debt relief, and thus created new debt servicing pressure. In fact, the financing of the MDRI by donor countries implies that there is a continued risk of moral hazard, since multilateral institutions have a strong incentive to continue to extend new and potentially superfluous loans to developing countries as they do not suffer the consequences of risky lending themselves (Dijkstra 2008: 121).

Conclusion

This paper critically interrogated the most recent efforts by the international community to address the unsustainable debt situation of heavily indebted developing countries. There is no doubt that the MDRI and the HIPC debt relief initiative have translated into a significant debt stock reduction of all participating countries, and that debt service payments have declined noticeably in the aftermath of both initiatives. However, an important question that needs to be asked is: what are the real costs of debt relief, given that conditionality for accession to the HIPC and MDRI has further expanded, and slightly modified neoliberal policies are promoted with the carrot of debt relief.

The paper has argued from a neo-Gramscian perspective that debt relief has been co-opted and instrumentalized by the IFIs to further entrench neoliberal practices and policies; by linking neoliberal reform conditions to debt relief, the IFIs have become ever more influential in setting economic and social priorities in developing countries. Thus, contrary to IFI claims about national ownership of development policy, the introduction of the HIPC and MDRI, and its associated policy tool, the PRSP, have significantly extended the scope and depth of World Bank interventions into the internal affairs of the developing world, and thus further undermined the sovereignty of developing countries. While SAPs pioneered new modes of interventions into developing countries, by moving the focus from project- to policy-based lending, under the HIPC and MDRI debt relief initiatives conditionalities have increasingly intruded into previously uncolonized areas.

Conditionalities have started to reach beyond the economic sphere, the traditional realm of IFI conditionality, entering into the sphere of social reproduction and addressing issues of institutional restructuring and the governance of the poor. This has been conceptualized as a turn towards a more inclusively oriented neoliberal policy regime that selectively combines market expansion and privatization with transfer payments to the poor, and thus complements accumulation by dispossession with accumulation by subsidization.

At the same time, though, the HIPC and MDRI have potentially another (largely unintended) long term effect, to undermine the position of power of the IFIs and to open up more policy space for developing countries in articulating their idiosyncratic development goals and vision. Debt remains an important "tool of control" for the IFIs, and the high debt burden of developing countries has been a significant constraint on policy autonomy, as IFI finance has generally been linked to stringent conditionalities. In the past, most developing countries had to implement economic conditionalities in their bid to renegotiate debt and to secure resources from international creditors. However, the recent series of debt cancellations may offer countries opportunities for expanding domestic policy space and experimenting with more heterodox macroeconomic policies, and thus could facilitate future release of countries from the strictures of (harmful) neoliberal economic conditionalities (Tan 2007: 20).

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