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IMF creates global safety net for poorest countries

By Sabri Ben-Achour **February 5, 2015**

To say Liberia took an economic hit from Ebola would be an understatement.

"The economy slowed to basically a halt and even began to contract," says Steven Radelet, professor of human development at Georgetown University and an adviser to Liberian president Ellen Johnson Sirleaf. "Fruit markets and food stalls were gone, nobody was touching each other, restaurants were empty, hotels were empty, the two major iron ore mines shut down, rubber plantation workers stopped going to work, palm oil plantations stopped."

Liberia lost 25 percent of its annual receipts because of Ebola, according to its ministry of finance.

"You have this unprecedented need for an increase in spending, unplanned spending at the exact time the government lost revenue," says Benjamin Spatz, a Truman National Security Fellow and expert on West Africa.

At the same time, Liberia owes about $130 million to the IMF. Neighboring Guinea, also dealing with Ebola and also indebted, was spending more on debt relief than on public health.

The IMF has created a $100 million dollar fund to defray the debt service of these three countries, freeing up money to go elsewhere, and is attempting to procure $70 million more in debt relief from individual creditor countries. It's added $160 million in concessionary loans – that means loans at low interest rates or with fewer conditions than normal. Liberia, Sierra Leone, and Guinea collectively owe $372 million to the IMF.

The IMF has also created a "Catastrophe Containment and Relief" Trust to serve as a source of emergency debt relief and assistance to the world's poorest countries in the future.

"Essentially it's creating a global social safety net for world's poorest countries," says Eric LeCompte, executive director of Jubilee USA, a religious-based organization that advocates for international debt relief.

Under international law, debt relief comes with conditions, LeCompte says. "It comes with special rules that the money be used for social infrastructure. Building hospitals or building schools."

"In the longer term it enables countries to improve their credit rating and regain access to international financial markets," says Tony Addison, chief economist and deputy director of United Nations University's UNU-Wider research and training program in Helsinki, Finland.

"For example some of the debt relief given over the last 10 years as part of the Heavily Indebted Poor Countries Initiative and its successors helped poor countries re-enter global capital market, so you've had over the last five years in particular some low-income and middle-income countries able to sell their sovereign debt quite successfully," Addison says.

But he says it doesn't prevent a country from spending itself into debt all over again. And that, he adds, isn't just a poor country problem. Just look at Greece.