



Spotlight on Illegitimate Debt

**The Destabilizing Effects of Debt
on the Ivory Coast**





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Debt destroys development in Africa. Forced to service a seemingly insurmountable debt, the world's poorest nations, predominantly in Africa are rendered powerless to invest in healthcare or establish basic education systems. In the year 2000, for example, Africa paid approximately \$1.55 in debt service for every \$1 it received in official development assistance. **Today Africa owes \$200 billion to wealthy nations and spends \$14 billion a year to service debt, more than it receives in aid.**

The moral code of society preaches an obligation to repay ones debt, but the case of Africa is a viable exception. Not only does Africa's debt siphon away funds desperately needed to finance social services, the debt of African nations is most often illegitimate and odious. Illegitimate debts include those incurred by unrepresentative and despotic regimes, mainly during the era of Cold War patronage. These loans were made to corrupt leaders who used the money for their own personal gain, often with the full knowledge and support of lenders. Other examples of illegitimate debt are irresponsible loans used to purchase arms, loans made even after the country was overwhelmingly in debt or loans made for failed projects that were accompanied by creditor conditions that undermined the economy of the borrower. Illegitimate loans do not benefit Africa's people and are often ultimately paid by the very people hurt by the loan itself.

More generally, many Africans question the notion of an African "debt" to the U.S. and European countries after centuries of exploitation. Africa's debt is an unwelcome reminder of years spent under despotic and unrepresentative regimes. These loans continue to harm the very people they were meant to help because they come with social and economic conditions attached. These conditions include cutting spending for health care and education and agricultural support, the privatization of water and other industries and weakening environmental and labor laws to inspire greater foreign investment.

The United States has advocated a cancellation of Iraq's \$400 billion in debt, declaring that it was "odious", yet fails to recognize the inherent benefits in abolishing the \$300 billion owed by sub-Saharan Africa. Until the creditors agree to 100% cancellation of Africa's debt, these nations will continue to suffer the injustices of a moral double standard, where political agendas take precedence over people's lives. This case study illustrates three forms of illicit debt, the World Bank's unfavorable advice; funds misallocated to buy arms and fuel corruption, and continued lending despite already accrued massive unpaid loans.

Ivory Coast

Located in West Africa, and roughly the size of New Mexico, Ivory Coast was once known for its economic self-sufficiency and rapidly developing agricultural industry. Yet a series of ill-advised loans, combined with an unstable cocoa market and a history of political strife, left this once independent nation enslaved by debt. The debt accrued by Ivory Coast since its independence is overwhelmingly illegitimate, as it prevented the nation from diversifying its economy or achieving any form of successful development. These negligent loans placed the country in a budgetary stronghold, while failing to provide any visible benefit for the Ivorian people. Though the nation is in dire need of foreign assistance, it spent two and a half times as much on debt service payments than it received aid grants. By analyzing the history of the Ivorian economy, it becomes overwhelmingly obvious that Ivory Coast desperately needs full cancellation of its debt.

The following chart is a snapshot of the Ivory Coast's economy. These figures illustrate the extent of its debt, in relation to the size of its economy, which has caused the amount of aid received to be widely insufficient.



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**World Bank: World Development Indicators
Ivory Coast: 2004**

GDP*	\$15 Billion
Long Term Debt (\$U.S.)	\$11 Billion
Present Value of Debt (\$U.S)	\$12 Billion
Life Expectancy	46 years
Literacy Rate	49%
Official Development Aid	\$154,000
Prevalence of HIV/AIDS*	750,000

*GDP- Gross Domestic Product: market value of all final goods and services produced within a country in a given period of time.

*Prevalence of HIV/AIDS: The number of people living with HIV/AIDS by the end of 2005. Does not include orphans, or deaths.

A History of Debt

Emerging from the shadows of French colonialism in 1960 with a promising cocoa market, Ivory Coast appeared poised for success. This optimism continued into the early 1970's, as high global prices for cocoa led the Ivorian government to overestimate the potential of its agricultural industry. Consequently, the nation put the majority of its budget to the production of cocoa. The World Bank and other lenders prompted the government of Ivory Coast to accept loans on the pretext of a burgeoning market for cocoa, of which Ivory Coast is one of the world's largest producers. However these same creditors undercut the Ivory Coast by encouraging all other developing nations to produce cocoa as well. As a result, there was an increase of the international supply of cocoa, which caused the global price of cocoa to plummet. Suddenly, the government faced an increasing debt and became unable to pay off the loans. Reality set in, and the Ivory Coast quickly digressed to the status of a developing nation struggling to reestablish itself in the global marketplace. As a result, foreign debt rose to \$9.8 billion in the early 1980's, causing the nation to spend 31% more servicing debt than they received in profits from its exports.

To avoid an impending economic disaster, Ivory Coast enacted a 'historic', multi-year debt-rescheduling package in 1985, which lenders believed would enable the ailing nation to "grow out of its debt crisis". To reward the Ivory Coast for accepting the terms of the agreement and implementing several required "structural adjustments" like privatizing health and education, lenders granted the government another \$66.2 million loan from the International Monetary Fund (IMF) and an additional \$30 million from the World Bank. Unfortunately--though not unexpectedly-- these adjustments backfired, and taking out new loans to pay an old debt did not solve the problem. Unable to repay its creditors, the country entered a continuous cycle of transferring revenues from cocoa exports, and also the majority of other generated revenues, to debt payments. This in turn prevented Ivory Coast from developing its economy, thus propelling it further into debt. As a result of a persistent drought, the situation intensified in 1987. Cocoa prices kept dropping, and the IMF forecasted \$1.4 billion in debt servicing, a figure which constituted nearly two-thirds of the national budget.

Unable to meet its payments, Ivory Coast defaulted on loans to the World Bank and the International Monetary Fund. Though the loan payments were renegotiated to allow a six-year grace period, the damage had already been done. Ivory Coast's inability to meet its payment deadlines left the economy in disarray and discouraged potential investors. Yet even this did not deter the IMF from its policy of irresponsible loans. Though the Ivorian government was already inundated by debt, the IMF granted a \$235.8 million dollar structural adjustment loan, with more harmful conditions attached. Over the course of the next decade, the Ivorian government was riddled by corruption and overwhelmed by debt. Despite the corruption, the IMF and World Bank kept lending with full knowledge that the loans would not reach the people. Finally, in 1998, both the World Bank and the IMF agreed to suspend any negotiations with Ivory Coast.



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A Second Wave of Debt

Through an unflinching commitment by the government, Ivory Coast finally managed to rid itself of all outstanding payments in 2002. Just months later, the International Monetary Fund 'rewarded' Ivory Coast by loaning the government \$328 million to fund programs aimed at improving both education and public health. However the country erupted in civil war in September, and this substantial development loan ultimately funded the military. To quell a rebel uprising, the government invested in arms rather than books or antiretroviral drugs to fight the HIV/AIDS pandemic. Though these loans were granted on the pretext of fighting poverty and establishing infrastructure, they were poorly timed and only led to the eruption of a fierce civil war. As fighting engulfed Ivory Coast, thoughts of escaping a second wave of debt fell a distant second to achieving national security.

After nearly two years of conflict, peace has returned to Ivory Coast. Yet as the country attempts to overcome the wounds of war, they are once again handicapped by illegitimate debt. By refusing to release \$105 million in monetary aid until the government can repay \$310.3 million in debt, the World Bank is preventing crucial programs to combat the HIV/AIDS pandemic and restore this nation to what has become an elusive state of stability. In the wake of political strife and civil unrest, the African Development Bank (ADB) has relocated its headquarters to Tunisia. The ADB also suspended dealings with Ivory Coast until the nation can repay its defaulted loans. These developments effectively place Ivory Coast in a situation where they are unable to fund domestic programs and are forced to funnel all their available revenue to service an ever-increasing foreign debt.

Overcoming the Burden of Debt

Though Ivory Coast has struggled to overcome the burden of its debt, there is hope that the nation may achieve stability. In April of 2002, Norway granted £11.3 million of debt relief to the nation, with £3 million of relief scheduled in the near future. Ivory Coast is also listed as a Heavily Indebted Poor Country (HIPC), and as such they received \$800 million in debt relief in 2001, and are scheduled for another grant of partial debt relief in the near future. However, to escape a past scarred by agricultural failures and violent conflict, Ivory Coast needs recognition of its illegitimate debt and full cancellation followed by a series of grants. A two-pronged approach of loans and grants will allow the government to refocus its attention on pressing domestic issues like the HIV/AIDS pandemic, improving education and health care, and a diversification of the economy. As the former colonial oppressor and the largest creditor at \$2.6 billion, France could make history by leading the movement to free Ivory Coast from the bonds of debt. The United States, a member of the Group of Eight (G8), has the power to lead a movement towards 100% debt cancellation for all 54 countries in Africa, without social and economic destabilizing strings attached.

The debt accrued by Ivory Coast, as a result of years of illegitimate lending and bad policy advice that resulted in agricultural struggles and internal strife, stands as the largest obstacle in this country's continued search for political stability and economic self-sufficiency. With elections scheduled to take place in October of 2006, full cancellation of debt is absolutely necessary to restore the Ivory Coast to its former position as an economic gem of West Africa.

This tragic spiral into debt is not a unique story, but rather one example of an all too common phenomenon for countries in Africa. Struggling to overcome debt, impoverished nations find that creditors kick away the development ladder, with illegitimate loans that have harmful conditions. With a history of colonial repression and more than 62% of all people living with HIV/AIDS on the African continent, Africa Action echoes the call of our partner organizations in Africa, in asking "**Who Owes Whom?**"