



Africa Action Statement on Illegitimate Debt

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Throughout Africa, the insidious effects of an unjust international financial system are felt through a massive debt crisis that jeopardizes human and economic development. The continent currently shoulders a \$200 billion debt burden, which drains \$14 billion per year out of the national economies of Africa and into the pockets of wealthy bilateral and multilateral creditors. The effects of this debt burden are devastating, undermining government spending on health and education, and fueling poverty. But Africa Action emphasizes that these debts are also fundamentally illegitimate in nature, based on their origins and their impact.

In light of this reality, Africa Action demands an immediate acknowledgment by the World Bank, International Monetary Fund (IMF) and other creditors of the illegitimate nature of Africa's debt. We call for an immediate commitment by these creditors to cancel the continent's debts outright and without harmful economic conditions so that African countries can determine their own spending priorities and focus on their own development needs.

What is Illegitimate Debt?

The current debt crisis in Africa, and throughout the global South, originally emerged from loans made by bilateral and multilateral creditors in the 1970s and 1980s. These loans, ostensibly extended for the development of low-income countries, have ultimately served to hamstring African economies with ballooning and un-payable debt. The debts African countries now bear can be considered illegitimate based on the circumstances under which the lending occurred, as well as on the devastating consequences of lost national resources and a lack of social and economic investment across the continent.

The following sections define Africa Action's understanding of the different kinds of illegitimate debt, for which African countries continue to be held responsible by creditors:

Odius Debt: In the context of the political dynamics of the decades-long Cold War, the international financial community eagerly extended substantial loans to African leaders, who were considered strategically important at that time. These creditors were not concerned that many of those same leaders were widely recognized to be authoritarian and repressive. The loans were extended in order to secure the allegiance of those leaders during the Cold War and to help cement their hold on power. However, these loans did not serve the interests of those countries' populations. The loans were not intended for economic development and were frequently used to oppress people and sustain autocracies.

This Cold War dynamic led to the accumulation of "odious debts" throughout the African continent. The principle of "odious debt", enshrined in international law, describes cases of debt incurred for purposes contrary to the interest of the nation's people, and in which these purposes

are known by the creditors. This principle maintains that there is no obligation for the people to repay debt for which they saw no benefit.

The argument concerning the odious nature of certain debts has been applied in other cases. Most recently, it was used by the Bush Administration to push for the cancellation of Iraq's Saddam Hussein-era debts after he was deposed. This rationale must now be applied to the many similar cases in Africa, where debts are clearly illegitimate and also merit immediate cancellation.

For example, in Liberia, a country that recently celebrated the election of Africa's first female president, more than two decades of dictatorship under Samuel Doe and Charles Taylor led to the expansion of Liberia's debt to over \$3.5 billion, a sum that now undermines progress in that newly democratic state. The international community's claims to support Liberia in its new beginning ring hollow in the face of its continued demands for repayment of this odious and illegitimate debt.

Apartheid-Caused Debt: The apartheid regime in South Africa and the debts incurred during its years in power provide a well-known example of illegitimate debt, resulting from external loans that funded the repressive practices of the apartheid government. Apartheid in South Africa also contributed to the accumulation of illegitimate debt among its neighboring countries, which were destabilized by war with the apartheid regime. The apartheid government's efforts to aggressively assert its control throughout southern Africa, in order to preserve its own hold on power, fuelled colonial wars in Angola, Mozambique, Zimbabwe and Namibia.

For example, apartheid South Africa's sponsorship of rebel forces in Mozambique sustained a conflict that cost over \$15 billion in damage and lost production and that forced the government of Mozambique to borrow millions of dollars in order to rebuild. The countries of southern African continue to feel the effect of this illegitimate apartheid-era debt.

Stolen Wealth: In the context of the Cold War, there were also examples where corrupt leaders and government officials misappropriated loans for their own personal enrichment. This phenomenon is often referred to as "stolen wealth." It is well established that the international creditors knew of the nature of such regimes and the purposes for which the money would be used, and therefore those lenders were complicit and corrupt in making such loans.

In the case of Mobutu Sese Seko's rule in the former Zaire, now known as the Democratic Republic of the Congo, the World Bank, IMF and Western governments continued to disburse loans in excess of \$4 billion throughout the early 1980s, even in the immediate aftermath of a 1982 IMF report confirming that the funds were being looted by the nation's leadership. Mobutu used these loans to build mansions and for other personal luxuries, and the people of the country saw no benefit. Nevertheless, today they are being held liable for those illegitimate debts.

Debt from Failed and Harmful Projects: Many of the loans made by the World Bank and IMF since the 1970s were designated for poorly conceived and badly implemented projects that did not help the people to whom they were supposedly directed. Often these programs, envisioned by international creditors, were not designed for the development of the countries of

the global South but rather to facilitate the business dealings and increase the profits of foreign companies. Many of these loans were contracted without the support or knowledge of local populations. In fact, in numerous cases, these projects were destructive to the local communities and environments. Such irresponsible lending practices have undermined Africa's long-term economic development and put livelihoods at risk in many countries.

For example, plans for the Chad-Cameroon pipeline, a project financed by the World Bank, were launched in 2000 and involved over \$300 million in loans. Completed in 2003, the pipeline was elevated as a demonstration of how revenues from extracted resources might contribute to development and poverty reduction. Chadian and international civil society organizations immediately raised concerns about the Chadian government's human rights abuses and corruption, as well as the environmental costs of the pipeline on local communities. Four years after the completion of the project, there is little indication that the oil revenues have benefited the people of Chad.

Today, in Chad and elsewhere, local communities continue to pay the price of these old debts, as government budgets are largely devoted to servicing these debts, and thus, this injustice continues to be compounded.

Debt Resulting from Creditors' Destructive Economic Conditions: Economic conditions, such as high interest rates, imposed by creditor governments, the IMF, and other financial bodies have also caused debt levels to skyrocket throughout Africa. In many countries, the original debt (or principal) has already been paid off, and yet countries struggle to continue to service these old, illegitimate debts.

Between 1970 and 2003, it is estimated that Africa received \$540 billion in loans. African countries repaid \$580 billion in principal and interest over those years, but, as a result of accrued interest, at the end of that time period, the continent still owed over \$300 billion on the original loans.

Immoral Debt: Debt payments by African countries to rich creditors are paralyzing national efforts to direct resources towards social spending. In the absence of such investment, and as a direct result of the drain of debt servicing, the impoverishment of Africa's people continues. African countries are stripped of their capacity to respond to urgent challenges such as halting the HIV/AIDS pandemic, which claimed over 2 million lives in Africa in 2006.

In a demonstration of this pattern, the 2005-2006 budget for the Kenyan government allocated some 22% of spending to debt service, almost four times the amount of available funding for the health sector. Even after the incremental progress of international debt relief schemes in recent years, African countries still expend more repaying old illegitimate debts than on vital social services. As former Tanzanian president Julius Nyerere said, "Must we starve our children to pay our debts?"

The history of African nations' interactions with global powers has been marked by exploitation and external domination. The current debt crisis stands as an extension of a centuries-long

pattern, in which African resources are siphoned towards the development of northern economies. In this context, Africa Action poses the question: “Who really owes whom?”

What is the Solution?

In order to address the ongoing injustice of Africa’s debt crisis, the international community must recognize the illegitimacy of these debts and immediately extend debt cancellation to all countries in Africa and the global South.

Africa Action emphasizes that the international community continues to fail to acknowledge the illegitimate nature of Africa’s debt, even though the principle of “odious debt” has been invoked in other cases. Instead, current debt relief initiatives, which are designed and controlled by creditors, perpetuate the injustices of the international financial system. The Heavily Indebted Poor Countries (HIPC) Initiative and the Group of 8 (G8)-led Multilateral Debt Relief Initiative of 2005 have provided only partial debt relief to a limited number of countries and continue to impose external economic conditions on recipients.

In October 2006, Norway became the first creditor country to cancel foreign debts on the basis of illegitimacy. The Norwegian government announced that upon review of \$80 million of debt owed by five countries – Ecuador, Egypt, Jamaica, Peru and Sierra Leone – it had determined that those loans had been made irresponsibly and would be cancelled. This action set a key precedent for the international financial community to examine the larger history of irresponsible and illegitimate lending and to take action to redress the injustice.

Africa Action asserts that creditors must accept responsibility for their own disastrous lending practices, and they must recognize the illegitimate nature of loans made in bad faith. We believe that such an acknowledgment must form the basis for full debt cancellation for African countries, and it should also lead to more responsible lending practices in the future.

Across the African continent, civil society activists have long emphasized the illegitimacy of their debt burdens and have taken the lead in calling for such accountability. In Kenya, for example, local coalitions recently began an investigation of their government’s borrowing history to determine how the funds were spent and which loans were illegitimate. Mobilization among activists in the global South has been persistent and extensive. This recent action in Kenya, and others like it, serve as precursors to a growing movement of Southern governments to repudiate unjust debt.

Africa Action stands in solidarity with debt campaigners across the African continent, calling for recognition of the illegitimacy of African countries’ debts. Africa Action urges the U.S. and other G8 leaders, and the international financial institutions, which they direct, to cancel these debts immediately and without harmful conditions.

