

Africa's Debt

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The 48 countries of sub-Saharan Africa spend approximately \$13.5 billion every year (1) repaying debts to rich foreign creditors for past loans of questionable legitimacy. These debt repayments divert money directly from basic human needs such as health care and education, and fundamentally undermine African governments' fight against the AIDS pandemic and their efforts to promote sustainable development. The All-Africa Conference of Churches has called Africa's massive foreign debt burden "a new form of slavery, as vicious as the slave trade".

Africa Action calls for the cancellation of Africa's foreign debt, which we consider in large part to be illegitimate, based on its origins and consequences. We consider the present and past attempts to deal with the debt crisis to be absolutely insufficient, and we oppose the existing debt relief framework, developed and controlled by creditors and designed to function only in their interests. Africa Action opposes conditionalities imposed by Northern creditors which perpetuate a global economic system where Africa remains economically controlled by the developed world. We believe that the costs of debt cancellation should be borne by the creditor nations and the International Financial Institutions, and moreover, we believe that the global North owes Africa an historical debt for centuries of exploiting the continent's human and natural resources. We therefore pose the question, "who really owes whom?".

1. Introduction to Africa's Debt Crisis

In the 1960s and 1970s, African countries became indebted to international lenders as they accepted loans for political and economic stabilization in the post-independence era. In the context of the Cold War, and with massive revenue surpluses of oil money in Western banks in the 1970s, loans were made with little thought to their purpose or to their recipients' capacity to repay the debt. Many were made to retain the loyalty of corrupt regimes, and much of the money went into the hands of unrepresentative and repressive governments. In the 1980s, when the shocks of the 1970s oil crisis, rising interest rates and falling global prices for primary commodities began to take a toll, the debt crisis in the developing world began to unfold.

Sub-Saharan Africa's debt crisis worsened during the 1980s, as the ratios of foreign debt to the continent's gross national product (GNP) rose from 51% in 1982 to 100% in 1992 (2), and its debt grew to four times its export income in the early 1990s (3). In 1998, sub-Saharan Africa's debt stock was estimated at \$236 billion, and that of the whole continent was over \$300 billion (4). Africa's debt burden is twice that of any other region in the world -- it carries 11% of the developing world's debt, with only 5% of its income (5). GNP in sub-Saharan Africa is \$308 per capita, while external debt stands at \$365 per capita.



Early attempts to address the debt crisis began in the 1980s, with debt swaps by creditors and with the IMF's Structural Adjustment Programmes, which were designed to stabilize and re-structure economies to ensure full payment of the debt stock. From 1989 on, a range of measures were enacted to reschedule and restructure debts through the Paris Club, an informal forum where creditor governments review and reschedule debt payment programs for poor countries. In 1996, the Heavily Indebted Poor Countries (HIPC) Initiative was created as the first comprehensive debt relief framework -- encompassing private and government creditors as well as the World Bank and IMF, for the first time -- and this remains the dominant approach to resolving the debt crisis.

2. Africa's debt is 'illegitimate' debt

In light of the circumstances under which much of the debt of African countries was incurred, and in recognition of the mistakes of both borrowers and lenders, as well as of the harmful effects of Africa's debt on the continent's development, Africa Action considers much of Africa's debt to be illegitimate. The illegitimacy of the debt is based on the following principles:

* Debts contracted by dictatorships or repressive regimes, and used to strengthen the hold of these regimes, are illegitimate, for instance the apartheid-caused debt inherited by South Africa. This has also been termed "odious debt" (an established legal principle).

* Illegitimate apartheid-caused debt also includes the debt incurred by neighboring countries who were destabilized and against whom war was waged by the apartheid regime in South Africa.

* Debt contracted by formally democratic but corrupt governments, which was stolen by leaders or senior officials, is illegitimate. This has also been referred to as "stolen wealth".

* Debts contracted and used for improperly designed projects and programs are illegitimate. There is heavy responsibility on creditors here, particularly on the World Bank for its failed development projects.

* Debt that swelled because of high interest rates and other conditions imposed by creditor governments and banks is illegitimate. This perspective argues that the original debt (the principal) has already been repaid many times over, so the continued existence of a debt burden is illegitimate.

* Debts which cannot be serviced without impoverishing a country's people are illegitimate. This is more often termed "immoral debt". As Julius Nyerere said, "Must we starve our children to pay our debts?".

* All debt owed by the South to the North can be considered illegitimate. The argument here is 'who owes what to whom?'. Africa Action and Jubilee South maintain that the countries of the South are in fact creditors of an historical, social and ecological debt which Northern countries refuse to recognize.



Understanding the illegitimacy of the debt reinforces the arguments for debt cancellation, and opens up some new options for accomplishing this.

Odious Debt

The concept of odious debt exists as a doctrine in international law, and this legal precedent (dating back over 100 years to when the US captured Cuba from Spain) could allow for the cancellation of such debts by international agreement. The Doctrine of Odious Debt holds that debt incurred by dictatorships for their own benefit or for the purposes of enforcing the dictatorship is 'odious', and therefore not the responsibility of the population or of subsequent democratic governments. The Doctrine has two main aspects: the legitimacy of the borrower's purpose in seeking the loan and whether the lender was recklessly indifferent to the status of the contracting state. In the case of South Africa, for instance, all apartheid-caused debt should be considered "odious" because of the nature of the regime. More broadly, it may be argued that the debts of developing countries that have arisen as a result of bad lending policies and loan conditions should be declared odious and written off.

Debt Repudiation

Debt repudiation is an option for countries that refuse to acknowledge the legitimacy of their debts. Repudiation involves the unilateral cessation of debt repayment. This is a dramatic move, and has several potential disadvantages, including the possibility of retaliation from commercial banks, creditor governments and multilateral lending institutions, and the possibility of jeopardizing relations with rich countries. One way to minimize this risk might be for a group of debtor nations to act in concert, joining in a "debtors cartel" that would not only be more difficult to "punish", but that would also command greater leverage in negotiations on future credit. The risk of limiting future access to financial flows would still be real, however. One past example of debt repudiation is that of Peru, where President Garcia declared that Peru was unilaterally limiting its debt payments to 10 percent of its export earnings - a de facto repudiation. This move proved detrimental to the Peruvian economy, leaving the country isolated from international financial markets, and eventually leading to a crushing \$20 billion foreign debt. In Africa, there is a growing call from civil society for collective repudiation of external debts by African countries. The refusal to pay is increasingly seen as the moral and logical outcome of the illegitimate nature of these debts.

International Debtors' Court

Another possible approach for addressing the problem of illegitimate and unpayable debt is the notion of an international debtors' court, as a full insolvency procedure where debtor governments could present their case rather than leaving all control in the hands of creditors, as is currently the case. Jubilee 2000 and others have endorsed the idea of such an international, independent court, appointed to arbitrate between creditors and debtors. This would be a mechanism for drawing a line under the unpayable debts of a sovereign state, similar to bankruptcy laws for individuals. In this forum, creditors and debtors would argue their separate cases, with the final decision resting with independent arbitrators, who would only endorse an agreement that was fairly and openly reached.



Disclosure and Classification of Debts

In order to expose the illegitimate nature of much of Africa's debt, a process of disclosure and classification of all outstanding debts has been proposed by Jubilee South, to examine the circumstances under which the debts were incurred and to encourage future government accountability and transparency. An immediate and thorough information disclosure on existing debts would permit the investigation and classification of these debts in order to establish their legitimacy, and therefore would allow a fair determination on the appropriate policy on servicing these debts. Making public the purpose and use of loans and investigating their legitimacy should not only help determine which debts should be canceled as a matter of principle, but should also encourage greater transparency and responsibility on the part of both lenders and borrowers in future lending.

3. The Current Debt Relief Framework

The Heavily Indebted Poor Countries (HIPC) Initiative was launched by the Bretton Woods Institutions in 1996. It was a significant development in that it acknowledged that previous efforts at restructuring or rescheduling debt had been insufficient to resolve the debt crisis in the developing world. This was the first comprehensive international debt relief scheme, integrating all multilateral, bilateral and private creditors into one framework. The aim of the HIPC Initiative was to reduce to "sustainable levels" the debt burden of poor countries that demonstrated sound economic and social policy reforms, and thereby to provide a lasting solution to the debt crisis. Reducing the debt to "sustainable" levels was intended to remove the debt overhang, and make it such that the debt service owed was the same as the amount being paid, thus preventing countries from falling behind on their repayments.

In order for countries to be selected for HIPC status, they had to meet three main criteria:

- * They had to be eligible only for concessional loans from the International Development Association (IDA) of the World Bank and the Enhanced Structural Adjustment Facility (ESAF) -- since re-named the Poverty Reduction and Growth Facility (PRGF) -- of the IMF.
- * They had to have a debt burden that was considered "unsustainable". A "sustainable" level of debt was gauged to be a debt-to-export ratio of between 200 and 250%, and a debt-service to exports ratio of between 20 and 25%. This meant that "sustainable" debt should not exceed two and a half times the value of exports, and that debt service should not exceed one-quarter of the value of exports.
- * They had to establish a track record of economic reforms under World Bank and IMF-sponsored programs. In 1996, the World Bank and IMF selected 41 countries as potentially eligible for HIPC status. 33 of these were in sub-Saharan Africa. The total debt stock of these highly impoverished countries amounted to approximately \$200 billion in 1997 (6). 85% of HIPC long-term debt is owed



to public lenders (multilateral and bilateral creditors) rather than to the private sector, and about half of this is owed to governments, though only a small amount (3.7 %, at the end of 1997) is owed to the US (7).

The HIPC process was to be divided into two phases. First was a three-year period between the "entry point" and the "decision point", during which a country followed IFI adjustment programs, and at the end of which a debt sustainability analysis was conducted to see whether and to what degree the country required debt relief. After a second three-year period, during which the country would consolidate its track record in following World Bank and IMF programs, the "completion point" would be reached, and the country would then receive a reduction in its total debt stock.

Under the original HIPC Initiative, progress was very slow, and criticisms of the pace of the process and the stringency of the qualifying criteria led to a revision of the plan and the unveiling of the Enhanced HIPC Initiative at the G-7 summit in Cologne in 1999. Under the enhanced framework, debt relief was to be made "broader, faster and deeper", and it was to be linked more closely and transparently with the goal of poverty reduction. Debt relief was to be "broader" in the sense that the lowering of the debt sustainability ratio to 150% of exports would admit more countries to qualify for relief. It was to be "faster" in the sense that the timetable for offering relief was accelerated by 'interim' assistance being provided between the decision and completion points. In addition, the completion point was made 'floating', which meant that countries that performed exceptionally well would not be required to wait the full three years in the second phase of the Initiative, but could reach the completion point more quickly. Debt relief was to be "deeper" because expanded assistance was to be provided to qualifying countries.

The Enhanced HIPC Initiative also aimed to link debt relief more firmly with poverty reduction efforts, requiring that all HIPC governments produce a Poverty Reduction Strategy Paper (PRSP) as a condition to their being eligible for HIPC relief. PRSPs were to be developed transparently through a Government-led national process, in consultation with civil society, the private sector and external donors, and with the assistance of the World Bank and IMF. The aim of a PRSP is to ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development. A country is expected to have a viable and comprehensive poverty reduction strategy in place prior to its decision point, either in the form of a PRSP or an Interim PRSP. The Boards of the World Bank and IMF then consider this paper as they review the eligibility of a country for HIPC debt relief. The requirement of a PRSP is yet another conditionality that the World Bank and IMF have tied to the debt relief process.

At the G-7 Summit in Cologne when the Enhanced HIPC Initiative was announced, the leaders of the G-7 countries committed themselves to writing off an additional \$100 billion of the HIPC countries' debt. The US share of this plan amounts to \$920 million over 4 years. In FY2000, \$110 million was appropriated by the US Congress for this global debt reduction plan. In FY2001, debt relief was approved in 2 parts:

* \$435 million in appropriations, which was the Administration's request to fulfil the US commitment to Cologne. \$225 million of this was for FY2001,



* \$210 million was emergency supplemental funding for FY2000. Legislative language was passed which authorized the re-evaluation of the IMF's gold reserves to be used for the purpose of multilateral debt relief.

The remainder of the US' share of the Cologne Agreement is \$375 million for FY2002 and FY2003.

The HIPC Initiative is financed jointly by creditors in a 'burden-sharing' practice. Bilateral debt relief is financed according to the budget process of each creditor country, while multilateral relief is funded through the IDA-managed HIPC Trust Fund, which receives money from the World Bank, IMF and bilateral donors. In order to finance IMF debt relief costs, the re-valuing of a portion of the IMF's gold reserves is an option, and this was endorsed by Congress in Fall 2000. The IMF holds 103 million ounces of gold in its reserves. It values this gold at \$47 per ounce rather than the true market value of \$262 per ounce, and therefore adjusting the value of this gold to reflect the market price would realize about \$25 billion in capital gains (8). Re-valuing about 14 million ounces of gold would generate enough money to cover the IMF costs of HIPC debt relief (9).

The process by which the gold would be revalued works as follows: A country owing money to the IMF would use this money to buy a portion of the IMF gold at current market value (over \$260/oz). After buying the gold, the country would make its loan repayment to the IMF using the gold that it had just purchased rather than hard currency. This transaction would adjust the value of the gold from the \$47/oz at which it is valued at the IMF to the real market value. The IMF would invest the "profits" of this transaction in a security instrument where the interest earned would be used to pay the costs of canceling HIPC debt. Harvard economist Jeffrey Sachs and others argue that the IMF therefore has more than sufficient resources on its own balance-sheets to absorb the cost of a more substantial write-down of the debt than is provided for through the HIPC process.

Under the Enhanced HIPC Initiative, 22 countries had reached their decision points by early 2001, including 18 in Africa - Tanzania, Mozambique, Cameroon, Uganda, Mauritania, Mali, Senegal, Burkina Faso, Benin, Zambia, Niger, Gambia, Guinea-Bissau, Malawi, Guinea, Madagascar, Rwanda, and Sao Tome & Principe. So far, only two African countries have finished the entire debt relief process and reached their completion points -- Uganda & Mozambique.

The IFIs consider the HIPC Initiative to be meeting its objective of relieving the debt burden of the world's most impoverished countries. They quote figures of "significant" debt reduction for HIPC recipients. The World Bank stated late last year that once 20 countries had passed their "decision points", debt relief worth \$30 billion would have been committed. The U.S. Treasury similarly stated that the HIPC process would reduce the debt level of qualifying countries to 30% of the debt they originally held. Both the US Treasury and the IFIs consider this to be major progress, and both expect significant growth to occur in developing economies as a result of the HIPC process.

Africa Action disagrees.



The IFIs' estimates of the savings countries will make under the debt relief plan are grossly unrealistic, as are the extremely optimistic growth projections they make for HIPC countries (8- 12% per annum). The fact is that many poor countries are simply not paying their debt service at present because they are unable to meet the cost, and therefore a reduction in the debt stock of these countries, or even a minor reduction in the debt service, will make no difference to their plight. At best, a minimal amount of resources may be released, with a negligible effect on the country's economy.

Analyses by Jubilee 2000/UK in 2000 assessed the progress of HIPC debt relief much more conservatively than the IFIs. They estimated that, for the 23 countries expected to qualify by 2001 (of which 22 have now qualified), approximately \$1 billion dollars per annum would be released. Yet they also noted that all 23 countries would still be left spending more on debt repayments than on health care, that 6 of these countries would gain negligible levels of reduction, and that several countries, including Zambia and Niger, would actually be required to pay more in debt service after qualifying for HIPC assistance (10). An April 2001 report from Jubilee 2000/UK's successor Drop The Debt, found that the HIPC process has brought a mere 27% reduction in average annual debt payments to the 22 countries that have begun to receive debt relief, and that the total value of this is only \$735 million per year (11). A GAO report, commissioned by Congress in 2000, concluded that the HIPC Initiative is unlikely to provide a country with a lasting exit from its debt crisis or sufficient resources to tackle poverty unless it achieves strong, sustained economic growth, and unless it continues to borrow at the same level and concessional terms as before (12). This can hardly be considered a successful outcome.

On a practical level, the length of time and the level of bureaucratic detail involved in qualifying for HIPC relief make the process complicated and slow, despite the "enhancements". Only half of the eligible countries have begun to receive debt relief at this point, and not all countries who are in need of debt relief are included in the HIPC plan (e.g. Nigeria). The requirement of economic and structural reforms both delays progress in the implementation of debt relief and gives the IFIs a degree of control over debtor countries that is detrimental and inappropriate. The role of the World Bank and IMF in designing the terms and process of debt relief, and in dictating the economic and social policy reforms that must occur, gives these institutions a powerful influence in developing countries.

The only significant outcome of the HIPC Initiative, therefore, is that it permits creditors to continue to squeeze the maximum in debt repayments from the poorest economies. The so-called beneficiaries, the debtors in the world's poorest countries, see no real benefits from the current framework. The United Nations Conference on Trade and Development (UNCTAD) recently predicted that if current growth trends continue, only 1 out of the 43 Least Developed Countries will have graduated out of that category by 2015, and only 8 will graduate in the next 50 years. It is clear that the massive debt burden of the world's poorest countries cannot be serviced, and that the continuing existence of this debt will only further impede their development.

4. Conditionality Tied to Debt Relief



The issue of conditionality is central to any discussion of debt relief or debt cancellation. The IFIs argue that conditions, such as economic reforms and supervision by the World Bank and IMF, are necessary to ensure that debt relief proceeds are used wisely, and to prevent 'reindebtedness' (a recurrence of the debt crisis) caused by economic mismanagement by irresponsible or unrepresentative governments. They use the "moral hazard" argument to reject calls for debt cancellation, maintaining that writing off outstanding debts would "reward" bad practices and would encourage, rather than discourage, future financial irresponsibility by debtors. Not only is this argument flawed in its failure to acknowledge the illegitimate nature of much of Africa's debt, it also fails to recognize the responsibility of creditors in the lending process, and the role of creditors in the origins of the debt crisis.

The latest form of conditionality imposed by the World Bank and IMF is the requirement for HIPC countries to develop a Poverty Reduction Strategy Paper (PRSP), as described above. This approach, devised by the World Bank and IMF, is portrayed as a means to link debt relief more firmly with the goal of poverty reduction. While the notion of a national plan for poverty reduction and social and economic development, designed through collaboration between governments and civil society, undoubtedly has some merit in the abstract, the PRSP process is highly problematic. The fact that this approach is dictated and supervised by external creditors and is a precondition for receipt of debt relief raises serious questions as to its legitimacy as a natural expression of democracy in a HIPC country. Rather, it is another means by which rich country creditors retain control of African economies, and it is an inappropriate intervention in the process by which these countries govern themselves. It is a matter for African governments to determine their own approaches to poverty reduction, not to have this prescribed to them by external powers. The requirement of a PRSP presupposes that, without Northern guidance, Africans would neither care enough nor know how to apply themselves to the business of poverty reduction, and as such this is just another example of the neo-colonial mentality of these creditors in their relations with Africa and the global South.

Beyond the philosophical problems with PRSPs, there are also practical problems with implementation. The development of PRSPs brings an added bureaucratic dimension to the HIPC process, rendering it even more cumbersome and complicated. Linking the receipt of debt relief with the creation of such a paper means an even slower progression through the HIPC program and creates tension between the desire for speed in achieving debt relief and the complex requirement of producing a PRSP, which may lead to sacrifices in the quality of the paper drawn up. The PRSP requirement is a weak attempt to make the HIPC Initiative seem more concerned with the eradication of poverty. In reality, the current debt relief framework does not allow for sufficient savings for the roots of poverty to be tackled, and the PRSP is therefore just one more structural adjustment program to which developing countries must conform.

A more immediate approach to linking debt relief with poverty reduction was developed in Uganda, where the Poverty Action Fund (PAF) is often held up by creditors and NGOs alike as a model to emulate in the management of debt relief resources. Early in the HIPC process, the Ugandan government created this Fund, which is transparently managed and audited, and which has been used to channel debt relief resources to funding human development goals (13). Uganda's PAF has allowed for increased expenditures in education, in clean water supply and in infrastructure. While this approach has proved successful to date, and might be one short-term way to deal with the proceeds of debt relief in a transparent and productive



manner, this is not a substitute for a broader poverty reduction strategy, with a poverty focused macroeconomic framework. There is a need to strengthen the links between expenditures from the PAF and poverty/human development indicators to ensure that this approach is systematic and comprehensive in its objectives. It is also worth noting that even after debt relief, Uganda still pays out roughly 18% of its government revenues to cover its remaining debt.

While many NGOs consider debt cancellation tied to World Bank and IMF conditionalities to be fundamentally inappropriate, particularly in the case of illegitimate debts, it is important to acknowledge that the desire for conditionality in the debt relief process does not merely come from the creditors' side. There are groups in African civil society, as well as NGOs elsewhere, who consider some form of conditionality to be a useful safeguard against the misuse of freed up resources and the possibility of reindentedness by an irresponsible and authoritarian government. In cases where there is no democratic government, the establishment of an international monitoring body to oversee the use of debt relief proceeds is one approach which has been suggested by the Eurodad Network. This would work through the creation and management by this independent body of a "poverty fund" into which debt service savings would be diverted, and to which civil society would apply directly to finance specific sustainable human development opportunities (14). Bypassing a country's government in this way seems difficult as well as inappropriate in encouraging citizens to move outside the framework of their own state to seek guidance and economic direction from an external body. It is also unlikely that a country's civil society would have sufficient capacity to function independently of an undemocratic government.

Some argue that a basic precondition for debt cancellation is the existence of a democratic government, that can be relied upon to practice transparency and to include civil society participation in determining how resources are spent to ensure that they are re-channeled into programs that promote sustainable development. A democratic system should also allow for transparency and consultation on future loan transactions, and thus minimize the risk of reindentedness. It is our view, however, that illegitimate debts should be written off regardless. It is new loans and grants that are most appropriately used as incentives to support civil society and other internal campaigns for democratic reform.

5. Principal Creditors and the Costs of Cancellation

As noted above, the US is a relatively minor creditor in relation to the HIPC countries. Only 3.7% of the long-term debt of HIPC countries is owed to the US. This small proportion is explained in part by the fact that the US independently canceled about \$3.58 billion in poor country debt in the late 1980s and early 1990s, and also by the fact that the US shifted from loan aid to grant aid in the early 1980s.

As of early 1999, African countries owed the United States approximately \$6.8 billion. This is only a small share of sub-Saharan Africa's total \$236 billion debt burden. The principal debtors to the US are: Democratic Republic of Congo (\$2.1 billion), Sudan (\$1.2 billion), Nigeria (\$871 million), Somalia (\$431 million), and Cote d'Ivoire (\$378 million) (15).



The cost of canceling these outstanding debts is actually far less than it might appear. While collective HIPC debt amounts to some \$200 billion in nominal terms, the actual cost of writing off this debt is much lower. A Jubilee 2000 report finds that the real cost of canceling the debts of all HIPC countries would be \$24 billion (16). These figures are based on the market value of the debts -- determined by how much the debts are bought and sold for on the secondary market -- not the face value.

The US has already pledged to cancel the bilateral debt which it is owed, as have many of the other big bilateral creditors among the G-7 countries. The actual cost of bilateral debt cancellation by the US and other countries is likewise less than it might seem. For the \$6 billion which the US is owed by the HIPC countries, this debt is carried on its books at a more realistic 10% of face value, in recognition of the fact that 90% of this money is simply not going to be repaid. The cost of writing this bilateral debt off the books is therefore only about \$635 million (17). The Treasury Department has estimated that every \$1 the US contributes toward debt cancellation will leverage an additional \$27 from international creditors. The importance of US leadership is clear, while the cost of acting is truly minimal.

The Treasury Department admits that the cost to the US of bilateral debt cancellation is small, yet it emphasizes that the costs of multilateral debt relief are great, and that some of these will also fall on the US. A recent Drop The Debt report stated that after HIPC debt reduction, the 22 countries will owe more to the World Bank and IMF than to the next 17 largest creditors combined. Achieving cancellation of this huge multilateral debt is therefore crucial.

On the basis of recent studies and analyses, it has become clear that the wealth of resources that the major IFIs hold on their own balance sheets is sufficient for them to use internal funding to absorb the costs of multilateral debt cancellation. The IMF, by using accounts already in place for absorbing losses and by revaluing its gold, could come up with enough funding to absorb the \$6.2 billion it is owed in effective HIPC debt. The \$21.9 billion in effective debt owed to the World Bank by all HIPCs might similarly be absorbed from within its own reserves (18). A major new Report from Drop The Debt in April 2001 concluded, on the basis of an audit by two Independent Accounting Firms in the UK, that the World Bank and IMF could write off 100% of the debts of the world's poorest countries from their own resources and without negatively impacting their credit rating or ability to function (19). This Report seriously undermines the arguments of the World Bank and IMF and proves that debt cancellation is not a financial impossibility for these institutions. Adam Lerrick, a leading economist, argues that canceling the debts makes economic sense, and that any temporary cash flow imbalances that might be triggered by an immediate write-off could easily be addressed by bridge financing by the US Treasury and the Treasuries of the other G-7 countries.

Any proposal for debt cancellation must also consider how development in future countries will be financed after the debts have been canceled. The very idea of loans being more appropriate than grants has been seriously called into question by the current crisis. The Meltzer Commission's Report expressed scepticism about loans being the best means of financing development in the world's poorest countries, and instead endorsed a change from loans to project-centered and results-based grants. This notion of transforming the IFIs into grant-making institutions has also been expounded elsewhere. Jeffrey Sachs has proposed the



creation of a World Development Agency to replace the World Bank in dealing with the world's poorest countries, which would provide grants to support programs in health care, education, technological development and other areas (20).

What is certain is that the staggering cost of poverty eradication means that debt cancellation cannot be used as an alternative to development assistance. The need for "additionality", for substantial new grants and capital contributions by donor governments and multilateral institutions, over and above the cancellation of the debt burden, cannot be stressed enough. Development Assistance has been steadily decreasing over the past decade. Despite repeated promises from rich countries to provide 0.7 % of their gross national product for overall official development assistance for poorer countries, not one of the G-7 members (21) reaches even half that figure. The U.S. ranks at the bottom with only 0.1 percent of GNP going to development assistance, and only 1/100th of 1% of the U.S. budget is currently spent on aid to sub-Saharan Africa.

6. Conclusion

In light of the questionable legitimacy of much of Africa's outstanding debt, the enormous social and economic costs associated with servicing this debts, and the failure of debt relief efforts to date, Africa Action calls for the cancellation of Africa's massive foreign debt burden.

The HIPC Initiative, even in its "enhanced" form, is clearly inadequate and has certainly failed as an approach to Africa's debt crisis. Even in those rare countries, such as Uganda, where savings have actually permitted greater social expenditure, debt services still drain much-needed resources from social priorities and from efforts to address the devastating AIDS pandemic and other development challenges. In the majority of African countries that have received some HIPC debt relief, reductions in debt service have been minimal, and annual debt repayments still exceed expenditure on health care. Recent moves by the World Bank and IMF to attach additional debt relief conditionalities only render the debt relief process more complicated and accord these institutions an even more intrusive role in the economic and political processes of African countries.

It is time for a far more bold approach to Africa's debt crisis. The World Bank and IMF can and must do more, and the US, as global leader, must use its great power within these two institutions to push for real progress toward debt cancellation.



ENDNOTES

- (1) Drop the Debt, "Reality Check. The Need for Deeper Debt Cancellation and the Fight Against HIV/AIDS", April 2001 (<http://www.dropthedebt.org>).
- (2) Alternative Information and Development Center, Briefing for the Archbishop of Cape Town WHN Ndungane. (<http://www.aidc.org.za>)
- (3) Sanford, Jonathan E., "Africa's Debt Burden: Proposals for Further Forgiveness", CSIS Africa Notes, October 1996 (in) "Promoting U.S. Economic Relations with Africa", Task Force Report sponsored by the Council on Foreign Relations, 1998.
- (4) Africa Policy Information Center, "Africa's Debt", Background Paper, 1998
- (5) Jubilee 2000 Afrika Campaign. Conference Report.
- (6) The World Bank website (<http://www.worldbank.org>)
- (7) Congressional Research Service Report, "Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries", February 2000.
- (8) Sachs, Jeffrey D., Testimony before the House Committee on Banking and Financial Services, Hearing on Debt Reduction, June 15, 1999.
- (9) Congressional Research Service Report (see above).
- (10) Jubilee 2000/UK Presentation, "The need for further enhancement of the HIPC Initiative", Bretton Woods Committee Roundtable, Washington, DC, November 2000.
- (11) Drop the Debt, "Reality Check. The Need for Deeper Debt Cancellation and the Fight Against HIV/AIDS", April 2001.
- (12) GAO Report, "Developing Countries: Debt Relief Initiative for Poor Countries Faces Challenges", June 2000.
- (13) Oxfam International Briefing Paper, "Drop the Debt - Go Back to First Principles", July 2000.
- (14) EURODAD, "Making Debt Relief Work. Mechanisms for Aligning Debt Relief with Human Development", 1999.
- (15) Congressional Research Service Report (see above).



(16) Garrett, John & Travis, Angela, Jubilee 2000/UK, "Unfinished Business - The world's leaders and the millennium debt challenge", 1999.

(17) Sachs, Jeffrey D., Testimony before the House Committee on Banking and Financial Services (see above)

(18) Lerrick, Adam, "The Initiative is Lacking", EuroMoney Magazine, September 2000.

(19) Drop the Debt report 2001 (see above).

(20) Sachs, Jeffrey D., "The Charade of Debt Sustainability", The Financial Times, September 26, 2000.

(21) The members of the G-7 are Britain, Canada, France, Germany, Italy, Japan, and the U.S.

