Debate shifts

Over the years, the debate about debt alleviation has shifted, albeit slowly, and now practically all industrialized nations agree on the need for relief. But disagreement remains on how to achieve it. Some favour a phased approach with stringent conditions, as envisaged through HIPC. Others call for a full, unconditional write-off.

It is generally accepted that Africa's debt is too high to afford. As a proportion of gross domestic product and of export earnings, Africa's debt of about $350 bn is the highest of any developing region. The high debt levels impede public investment in infrastructure and human development and this in turn deters private investment.

> **For impoverished nations "struggling to meet the human needs of their people, full 100 per cent multilateral debt cancellation is the only option."**
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> **— African Social Forum, December 2004**

"Africa needs more financing, and that goes beyond traditional debt reduction. What is needed is full debt cancellation and at the same time a substantial increase in public development aid," says Mr. Alpha Oumar Konaré, head of the executive body of the African Union. "Africa today needs new resources that cannot be provided any longer according to the old recipes . . . we have to put an end to head-in-the-sand policies and grasp the need for new ways of debt management."

Resistance to debt relief

Both the World Bank and IMF remain opposed to calls to totally cancel the debt owed to them by the poorest countries. World Bank President James Wolfensohn argues that such a decision can only be taken by rich country governments, which are the institutions' largest shareholders.

The position of the IMF has generally been that debts are obligations that must be honoured. The IMF also contends that cancelling debt could encourage wealthy countries to stop lending and cut aid budgets further. The World Bank has opposed writing off the debts on its books because of the potential damage this could have on its credit rating. Debt write-offs would imply an acknowledgment that the Bank had made mistakes in lending.

The institutions say full cancellation would not work because there are no guarantees that the money saved would reach the intended target, poor people. In a policy paper, the IMF argues that unconditional cancellation raises the risk that debt relief could be squandered through corruption, increased military expenditure, or grandiose projects.

Australian Prime Minister John Howard concurs: "There is no guarantee that if you do it, what is forgiven or what is the subject of a moratorium will end up going in as aid, because the debts are not normally owed by people who need the assistance." Often the debts are "owed by other organizations and you have no guarantee that if you provide a debt moratorium or debt forgiveness that that money ends up where it should."

Some of those opposed to full cancellation have also often argued that it creates a "moral hazard" — in other words, it would promote risky behaviour by leading borrowers to believe they will be bailed out even if they do not pursue "good policies." The World Bank says that many countries that are highly indebted became so partly due to their inability to manage their financial resources. In contrast, the so-called tiger economies of East Asia, China and India implemented sound policies, using their borrowings to dramatically reduce poverty.

Iraq impetus

At the end of last year, industrial nations, at US urging, announced that they would cancel a sizeable part of the debt owed to them by Iraq. The country owes $40 bn to the Paris Club, an informal grouping of mainly Western creditor nations. The sum represents about a third of Iraq's external debt. The new Paris Club deal recommends an eventual reduction of 80 per cent of the debt owed to its members, leaving an outstanding debt of $8 bn.

Some groups have been quick to seize on Iraq's example to press for similar treatment of other developing countries. "Just as America is arguing in Iraq, debt forgiveness is vital in bringing stability to war-wracked countries and in preventing renewed conflict," says Mr. Alan Whaites, World Vision's director of international policy. The faith-based non-governmental organization has produced a report showing that the total debt of the 16 countries worst hit by recent conflict could be cancelled at a cost of $84 bn.

Eight of the countries are in sub-Saharan Africa, including the Democratic Republic of the Congo, Rwanda and Sudan. "Without debt relief," says Mr. Whaites, "these countries will remain shackled to the constraints of post-conflict economic stagnation without the means to rise to viability."

The US championed the call to assist Iraq because, it said, the country accrued its debt under a brutal dictatorship, and Iraqis deserve a fresh start. In response, World Bank President Wolfensohn commented: "In the light of the debt relief initiative for Iraq, a lot of countries are saying 'we also had debts assumed by people that shouldn't have assumed them.' They are saying that 'if debt relief is happening for Iraq, it should be happening for us too.'"

Rechanneling money

Columbia University Prof. Jeffrey Sachs says it is "unconscionable" for the Paris Club to grant a large write-off to Iraq without extending the same relief to countries such as Nigeria, a heavily indebted emerging democracy. Much of Nigeria's debt was also accrued under dictatorships, a large proportion of its population lives in poverty and the country's oil revenues per head are only a fraction of Iraq's. Nigeria, like a growing number of countries in Africa, is also bearing the brunt of an HIV/AIDS epidemic that, unchecked, could set the country back many years in terms of human development.

"While impoverished countries struggle to cope with the HIV/AIDS crisis, the World Bank and IMF continue to insist that they prioritize debt repayments over spending on HIV/AIDS programs and health care," says Ms. Jakeya Caruthers of the anti-debt group Jubilee USA. She says donor-driven policies that require cuts in state spending, privatization of public services and removal of subsidies have rendered governments incapable of providing affordable social services to poor people. Such policies, coupled with debt servicing, "cripple the ability of African countries to respond to HIV/AIDS," she says. "We demand that they drop the debt now to fight HIV/AIDS."

Ms. Caruthers was part of a group of women and girls who, on World AIDS Day, demonstrated in front of the World Bank and IMF offices in Washington, DC. Dressed in red, they created a human chain in the form of a women's symbol to dramatize the disproportionate impact of HIV/AIDS on women globally. In Africa, almost 60 per cent of those living with HIV/AIDS are women. The protesters demanded that the money poor countries are spending on debt should be rechannelled towards health, education and the fight against HIV/AIDS.

By September 2004, Jubilee USA had sent more than 600 faxes to the US Treasury and 11,000 cards to the World Bank and IMF. It also delivered to the G-8 a letter calling for debt relief from more than 250 prominent religious leaders.

Refuse to pay

Mr. Sachs has encouraged African countries to consider simply refusing to service their debts unless creditor nations cancel them. "The creditors ought to do this, on the basis of their long-standing commitments," Mr. Sachs, a special adviser to the UN Secretary-General, told African presidents attending a conference on hunger in Addis Ababa last July.

If creditors do not write off the debt, says Mr. Sachs, Africa will be forced to choose: "Should it save its dying children or should it pay its debts? I say it should save its children. Unilateral debt repudiation is preferable to death by debt." He says African countries that stop debt servicing should keep careful and transparent records showing that the money is being used for urgent public needs such as health care.

The Zimbabwe-based non-governmental group African Forum and Network on Debt and Development (AFRODAD), says African countries should refuse to service their debt for several reasons:

- Much of the debt is "odious" — it accrues from loans taken out by corrupt or dictatorial regimes such as South Africa's apartheid government and Zaire's government under the late President Mobutu Sese Seko.
- The amounts due have swelled to unsustainable levels due to high interest rates and unfair trade terms for goods produced by African countries.
- Debt that cannot be serviced without impoverishing a nation's people should be considered "immoral debt" and should not be paid.
- Some of the debt has been left as a result of poorly designed reform programmes under the guidance of creditors, including the structural adjustment programmes of the World Bank and IMF.

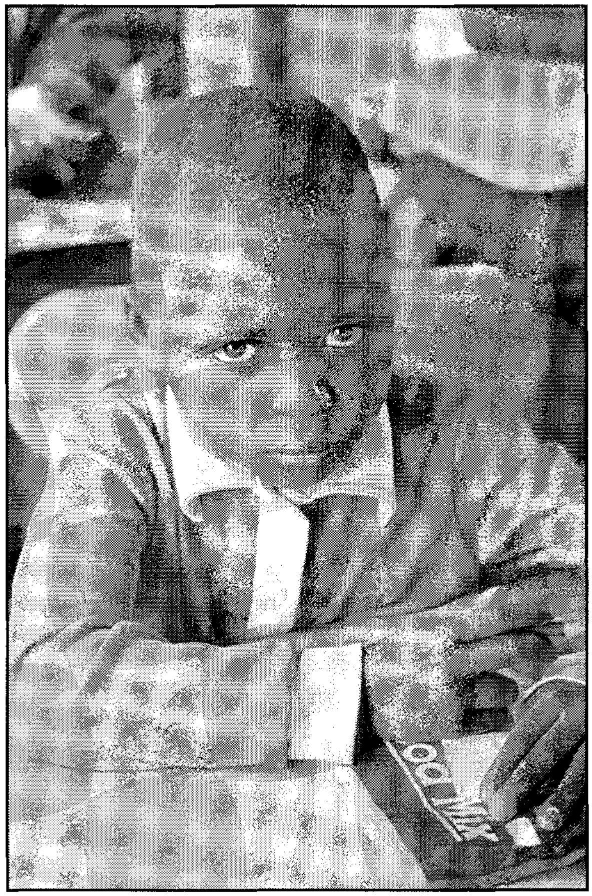
AFRODAD reports that even after receiving HIPC relief, African governments still spend, on average, $14 per person a year on debt payments, compared with $5 per person on health.

Hindrance to development

Adding its voice to the debate, UNCTAD released a report in September urging creditor nations to write off the debt owed by poor African countries. The report, *Economic Development in Africa — Debt Sustainability: Oasis or Mirage,* noted that continued debt servicing is limiting the ability of these countries to attain the internationally agreed targets known as the Millennium Development Goals (MDGs), which include reducing poverty by half by 2015.

"Debt servicing at any level is incompatible with attaining the MDGs in many African countries," UNCTAD reported. For Africa to achieve the MDGs, "at the very least, growth levels will have to double to some 7 to 8 per cent per annum for the next decade, the financial requirements of which are incompatible with present and projected levels of debt servicing."

Between 1970 and 2002 sub-Saharan Africa received $294 bn in total disbursements from the North and paid back $268 bn in debt servicing alone. Debt servicing by African countries constitutes "a reverse transfer of resources to creditors by a group of countries that can least afford this," UNCTAD reports.



UN / Pernacca Sudhakaran

Do African countries have to choose between servicing their foreign debts and putting more money into education?

The UN agency notes that even a full write-off would not be enough to attain the MDGs, but at least it would be a first step towards restoring economic growth in many African countries.

Mr. Brown, the UK's chancellor of the exchequer, concurs. "Too many countries are still being forced to choose between servicing their debts and making the investments in health, education and infrastructure that would allow them to achieve the Millennium Development Goals," he says. "We must do more." ■