AFRICA'S DEBT BONDAGE: A CASE FOR TOTAL CANCELLATION

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Abstract: From the early 1980s to the present, Africa's external debt burden has become increasingly onerous and unmanageable. The continent's inability to service its debt is vividly reflected not only by a massive build-up of arrears but most importantly, by the number and frequency of rescheduling. Although most concerned parties agree on the urgent need for creative and innovative approaches to resolve Africa's debt crisis, opinions differ considerably as to what exactly needs to be done. Recent partial and often disjointed debt relief measures that have been tried to manage the debt crisis have been found largely inadequate. It is hereby proposed that debt should be cancelled for highly indebted poor countries. This is precisely because debt repayment is economically exhausting as it continues to block future development; it is politically destabilising as it threatens social harmony; and, it is ethically unacceptable as it hurts the poorest of the poor.

1. INTRODUCTION

The harsh strategies of structural adjustment of the International Monetary Fund (IMF) and the World Bank have resulted in large-scale job losses, severely reduced living standards, lower real minimum wages and cutbacks in much-needed investment programs. Official development assistance is falling at the same time as many developing countries, and in particular the least developing countries, face the persistence of unsustainable levels of external debt, constituting an obstacle to their recovery (ICFTU 1996, 2).

From the early 1980s to the present, Africa's external debt burden has become increasingly onerous and unmanageable. The continent's inability to service its debt is vividly reflected not only by a massive build-up of arrears but most importantly, by the number and frequency of rescheduling. The cumulative burden of these payments has been nothing short of staggering. Particularly for a group of "heavily indebted poor countries" (HIPCs), most of which are in Sub-Saharan Africa, external debt servicing has turned into a daily nightmare.[1] Structural adjustment policies in Africa, supposedly designed to rescue debtors, have deliberately squeezed out every possible penny from ailing economies in order to pay the bilateral and multilateral debt. Little wonder that dilapidated public buildings, armies of urban unemployed, abandoned factories, pot-holed roads, hospitals without medicines, and schools without teaching materials are all visible testimonies of Africa's deepening economic crisis. In the words of scholar and activist Susan George (1994), "the African people cannot be squeezed any drier."

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as to what exactly needs to be done. Yet, in contrast to other developing regions, particularly Eastern Europe, the partial and often disjointed debt relief measures that have been tried to manage the crisis in African countries have been found largely inadequate.[2] The resultant bondage has irretrievably compromised the debtors' national sovereignty, however broadly defined, and has diverted scarce resources away from basic social services and productive investment. Recent studies have further suggested that investors (local and foreign) have increasingly been unwilling to take risks in most African countries, which have been tagged repeatedly as "bad debtors." Even more perturbing, large stocks of external debt in Africa have often tended to discourage foreign capital flows and to encourage capital flight (UNDP 1997; ECA 1996). In the words of the former United Nations Secretary General Buotros Boutros Ghali, "debt is a millstone around the neck of Africa, holding back human development and economic growth." It is against this backdrop that the worldwide debt-cancellation and debt-relief movements by various actors have mushroomed in the 1990s. The most outspoken and globally pervasive are Jubilee 2000 and Oxfam International. Debt cancellation campaigns seek to put an end to the unprecedented financial haemorrhage from the poor countries to the rich countries of the world. More specifically, they are fighting for a debt-free start to a new millennium.[3] Some of the well-known leaders of the debt cancellation movement include international celebrities such as Archbishop Desmond Tutu of South Africa, a Nobel Peace Prize winner; Adolfo Perez Esquivel, the 1980 Nobel Peace laureate; and Professor Amartya Sen, the 1998 Nobel laureate for Economics.

The purpose of this paper is to present a brief overview of Africa's debt situation as it currently stands, to review traditional and contemporary debt management strategies, and to examine new proposals for resolving the debt problem in developing countries in general and in African countries in particular. The paper is divided into four substantive sections. The first section situates Africa's economic crisis in general, and its debt crisis in particular, in the context of the global political economy. Section two presents the size, structure and impact of debt on African economies and societies. The third section explores the different attempts that have been made to address the debt crisis in Africa. A case for immediate and total debt cancellation for Africa is argued in the fourth and concluding section.

2. CONTEXTUALISING AFRICA'S DEBT CRISIS

According to the *1998 African Economic Report***,** the burden of the debt overhang remains one of the most critical hindrances to the economic recovery of the continent. It argues that debt strongly and negatively affects economic growth, threatens the sustainability of reforms, and prevents the development of a capable and functioning state due to the fiscal crisis that it engenders (ADB 1998:8-9).[4] The average net transfers for 1997 and 1998, for example, averaged $10 billion, which was spent by Sub-Saharan African governments on debt servicing and which was equivalent to more than 5 percent of the region's GDP (World Bank 1999a). Expressed differently,

this amount represented more than the sub-region's combined expenditure on primary health and basic education for those two years. Viewed retrospectively, these relatively huge transfers from the world's poorest region are slowly but inexorably consigning African citizens to a future of deepening poverty and helplessness. In fact, the African continent is the only developing region in the world whose human welfare indicators are worsening and the proportion of people living below the poverty line is increasing.[5] In the words of the *1995 World Development Report*, "the plight of the African continent remains the most serious challenge for the emerging world order" (World Bank 1995, 122).

The pervasive economic crisis that is currently engulfing Africa is not a recent phenomenon. It has been around ever since independence in the early 1960s. In fact, the impressive economic progress of the first post-independence decade was only short-lived. The continent enjoyed part of the worldwide prosperity, which included favourable terms of trade and widespread generosity and competition of the donor community under the Cold War ideologies. Since then, it has been one economic disaster after another. In the 1970s, the process of recycling billions of petro-dollars at low interest rates encouraged unprecedented economic expansion in most African countries. Bankers awoke to the delights of international lending, and developing countries were eager to accept these seemingly "cheap" loans, channelling them into ambitious but often unviable projects. This situation of relatively easy resource availability discouraged financial prudence on the part of both creditors and debtors. On the one hand, the creditors were more anxious to find borrowers than they were concerned with how the loans were used by the debtors, since most of the loans were government guaranteed and therefore there were no risks involved. On the other hand, debtor countries paid little attention to the returns from the borrowed funds as long as those funds financed capital flight by their own governing groups, maintained high consumption levels of state functionaries, or simply propped up the value of the national currencies to make foreign goods cheaper and to encourage imports (Onimode 1989; George 1994).

During this period, some African leaders' preoccupation with foreign loans and investment stemmed not so much from concern for the fate of the poor as from lust for the paraphernalia of power and glory. Foreign loans provided a large and relatively inexpensive source of finance for ambitious yet unsustainable industrial programs, for expansion in the size of state bureaucracies and for the expansion of the social service sector. Politically visible investment projects such as cathedrals, elegant airports, wide roads that lead nowhere, sports stadiums, and the accumulation of sophisticated weaponry made more political sense to statesmen than either economic growth or poverty alleviation. Worse still, part of the loan money was looted and laundered to European and American banks. It has been estimated that well over US$98 billion, for example, was stashed away by Nigerians in foreign banks, illegally acquired by its leaders as well as their family members and cronies (Aluko 2000, 2).

It is important to emphasise that, in spite of its heavy borrowing during the 1970s, the African continent as a whole did not experience serious repayment problems in that decade. This relatively comfortable situation was essentially for two reasons: the scheduled debt service had to begin at the end of the 1970s and the creditors were willing to maintain a positive flow of debt. Most African countries began to borrow heavily after 1973, when the dramatic rise of the price of oil forced them into large-scale borrowing overseas. Most important debt ratios remained within manageable levels during the 1970-1979 period, which indicates that, although the external debt for Africa was increasing very rapidly during the decade, the region as a whole did not seriously feel the burden of that debt (Siddique 1996). The following factors helped to mitigate the negative impact of the debt problem. Firstly, there were appreciable increases in the price of a number of primary commodities exported from the region, namely, oil, gold, diamonds, copper, cocoa, coffee, tea, sugar, groundnuts, etc. These increases generated expectations of increased export revenue earnings, and they tempted many governments to introduce expansionary fiscal policies (Krumm 1985). However, the rise in commodity prices was short-lived, and when they subsequently declined, public expenditures were not reduced commensurably. A second fact was that real interest rates in global markets remained at a relatively low level during the 1970s. According to the World Bank (1990, 15) average real interest rates for the 1963-89 period were as follows: 2.63 percent, 0.91 percent, and 5.85 percent, for periods 1963-73, 1974-79 and 1980-89, respectively. At the same time, the average annual growth rate of exports for Sub-Saharan Africa was 6.62 percent during the 1965-80 period, but this rate fell sharply to -0.8 percent during the 1980-87 period (World Bank 1989, 172). Thirdly, the competitive ideological environment of the Cold War period induced the industrially developed states (West and East) to be generous with aid and loans on concessionary terms (Rugumamu 1997; Griffin 1991).

Then came the traumatic decade of the 1980s. The collapse of the Bretton Woods system and the first oil price shock produced turbulence and volatility in all major industrial economies. This, in turn, gave rise to widespread abandonment of exchange-rate controls and other market deregulations. The second oil price shock of 1979-80 triggered worldwide inflation and pushed the industrial economies deeper into recession. In the seven years from the first oil price shock in 1973 to the second in 1979, the unit oil price rose by almost 600 percent. The decision to use contractionary monetary policies in the rich industrial economies transformed the low and even negative real interest rates of the mid-1970s into positive rates (for 1981-1984 it exceeded 12 percent) in order to combat inflation (Cardoso and Dornbusch 1989, 126). The resultant slow-down in growth dampened the demand for commodity imports from Africa. Prices for exportable commodities from Africa weakened while prices of imports increased, which worsened the terms of trade for the region (Saddique 1996). According to World Bank estimates, the fall in the prices of exportable commodities during the 1980s cost the region 15 percent of the real import purchasing power of its exports relative to what the situation was in the 1970s (World Bank 1990, 13). Closely related to these external factors are certain inappropriate internal policies that were

pursued by various African governments. These included overvalued exchange rates, inefficient marketing boards, and systems that discouraged small farmer production, along with extremely inept, inward-looking parastatal investment. The interaction of these factors set the stage for the emergence of economies that were in deep decline (Kaminsky and Pereira 1996). In 1980 Africa's share in world trade and in the trade of developing countries was 5 and 4 percent, respectively. Since then the share of the continent in the global trade has fallen to just over 2 percent.[6]

3. SIZE AND STRUCTURE OF AFRICA'S DEBT

Until very recently, Africa's debt management capabilities and strategies left a lot to be desired. Apparently, when the debt crisis ensued in the 1980s, most African governments had little idea of how much they owed or to whom. Additionally, institutionalised foreign-debt contracting and reporting systems were rare in most African countries. Little wonder that estimates of African indebtedness tended to vary widely among different sources, which in turn vastly compounded the repayment problems. Thanks to Africa's main creditors, this problem has now been largely resolved in most debtor countries.

Compared to other debtor developing countries, particularly those in Latin America and Asia, the size of Africa's external debt, on the whole, has been relatively small. However, given the size, structure, and vulnerability of Africa's economies, the continent's debt is highly unsustainable. As Goran Hyden (1987, 24) poignantly observes, the double tragedy for poor African countries is not only that their foreign debt is overwhelming relative to their domestic economic capacity but that their capacity is also too small to give them any bargaining strength in the international arena. As if that was not enough, creditor nations as well as banks, in a divide-and-rule fashion, insist on treating the debt question on a country-by-country basis, which ensures that debtors are kept in the weakest possible bargaining position. It is my strong conviction that little is likely to be accomplished until African countries bring their collective strength to bear on the international bargaining table. Table 1 below provides comparative statistics of the size and magnitude of Africa's debt.

Table 1. Total debt stock: Some developing regions (US$ billion), 1980-1998

	1980	1991	1992	1993	1994	1995	1996	1997	1998*
All developing countries	610	1,561	1,635	1,799	1,994	2,163	2,238	2,317	2,465
Sub-Saharan Africa	61	184	183	195	220	234	230	220	226
East Asia and Pacific	94	333	358	398	485	560	607	655	698
Latin America and Caribbean	257	492	509	554	593	648	669	704	736
North Africa and Middle East	64	187	188	193	208	211	204	193	206
South Asia	38	136	143	148	162	157	156	155	165

SOURCE: World Bank Global Development Finance (Washington, D.C., 1999b), 14-39.

*1998. Preliminary World Bank.

According to the data in table 1 above, the debt of all developing countries jumped from US$610 billion in 1980 to US$2,163 in 1995 and to an estimated US$2,465 billion by the end of 1998. This development was essentially due to the increase in new debt commitments, particularly in the increase of private capital investments in the "new emerging economies" of South East Asia and Latin America. When translated in terms of the region's ability to pay, however, Africa is more debt-distressed than any other developing region. By 1997, Africa's outstanding external debt was estimated at $349 billion, up from the $121.9 billion figure of 1982. Debt service amounted to $33 billion, absorbing about 21.3 percent of earnings from exports of goods and services. In the same year, there were 28 countries in Africa whose debt overhang ratio – measured by the ratio of the present debt to goods and services exports – stood at more than 200 percent. The growth of Africa's debt has, in fact, been excessive in relation to both gross domestic product (GDP) and exports. The ratio of external debt to the gross domestic product increased from 14.5 percent to 67.5 percent between 1971 and 1997. Measured against the export of goods and services, the debt service ratio increased from 0.63 percent to 21.3 percent between 1971 and 1997. All other debt indicators demonstrate that over the 1971-97 period, debt service obligations, particularly for Sub-Saharan African countries, reached unsustainable levels (ECA 1994, 1997, 1998).

Moreover, as table 2 below indicates, when indicators such as debt-GDP, debt-goods and services exports, debt service-goods and services exports ratios are taken into account, the situation for Africa's debt is, to say the least, unsustainable and unrepayable. Africa's debt as a percentage of GDP rose from 65.4 percent in 1993 to 67.5 percent in 1997. Debt service as a percentage of the earnings from the exports of goods and services averaged 27 percent between 1993 and 1997.

Table 2. External debt and debt related statistics (US$ billion and percentage)

	1993	1994	1995	1996	1997
Total debt (US$ millions)	301.7	312.2	329.0	340.6	349.0
As a percentage of GDP	65.4	66.3	68.0	67.8	67.5
As a percentage of exports	345.6	302.1	304.9	293.4	283.9
Debt service (US$ billions)	37.7	38.3	32.9	31.0	33.0
As a percentage of exports	28.3	25.8	30.5	29.3	21.3

SOURCE: ECA, African Economic Reports (Addis Ababa, 1998), 7; Table 1.7.

As regards sources and types of debt contracted by Africa's individual countries, governments continue to rely on concessional loans from both bilateral and multilateral sources. In 1995 and 1996, the average official bilateral and multilateral debt accounted for over 70 percent of Africa's external debt. During the same period, the debt owed to financial institutions and other private creditors amounted to 19 percent and 8 percent, respectively (ECA 1997). The high share of official debt reflects the eroded credit worthiness of many African countries and the fact that official lenders remain the main suppliers of new resources. At the same time, commercial debt is concentrated in the hands of only a few African countries, particularly Nigeria, South Africa, Angola, and Algeria, with Egypt and Morocco also accounting for a significant proportion. It should, nonetheless, be noted that, although commercial debt represents a relatively small portion of the total debt of African countries, given the non-concessionary nature of such debt, its servicing has proved quite burdensome, particularly for low-income, primary commodity-dependent economies.

More often than not, generalisations about Africa's debt situation tend to be misleading because the problems faced by low-income and by highly indebted, middle-income nations are essentially different. As earlier noted, one of the major differences arises out of the composition of their respective debts. Middle-income countries' debt tends to be from private commercial banks, while low-income countries' debt tends to be from official creditors. A good portion of the latter countries comprises most of the Sub-Saharan countries. This particular sub-region remains the worst affected part of the continent. It is also important to note that 25 of

32 countries classified by the World Bank as "seriously indebted low-income countries" are in Sub-Saharan Africa. Its total external debt increased from US$6.5 billion in 1971 to $223.3 billion in 1995. Above all, the sub-region's debt as a percentage of GDP rose from 30.6 percent in 1980 to 78.7 percent in 1994. The debt-to-export ratio rose from 91 percent in 1980 to 231 percent in 1994. These ratios provide clear testimony of Africa's absolute incapacity to repay its external debt. As Oxfam (1998a, 2) has pointedly noted, "the real victims include millions of children, who are paying for their countries' debt through ill health and poor nutrition; and who are being denied their only opportunity for education."

4. AFRICA'S DEBT MANAGEMENT STRATEGIES

> We have instituted reforms at great social and political costs to our people and governments... However, our efforts are being undermined by the exasperating and excruciating debt service payments, hostile economic and political international environment...and the failure of the international community to live up to its commitments to provide Africa with substantial increases in resources (OAU 1987, 32).

Creditor reactions to the international debt crisis have been many and varied. In 1982, Mexico and Brazil, the two largest debtor countries, threatened to default. In the absence of an International Insolvency Body, a "creditors' cartel" was immediately formed to manage the debt crisis. It comprised the US government, major creditor banks, the IMF, and the World Bank. As Devesh Kapur (1998) compellingly argues, for all practical purposes, in processes over the negotiations of loans, the rescheduling of debts, and the writing off of debts, this creditor cartel plays the roles of plaintiff, judge, and jury. Because of the absence of any international legal framework for the regulation of international lending and borrowing, borrowers and debtors are often at the mercy of creditors. At the same time, the elites in borrowing countries – who sign loan contracts in secret and who are not directly responsible for repayment over the life of the loan – have an in-built bias to borrow without vigilance. It is against this backdrop that the IMF emerged from the early 1980s as the principal "debt collector" for major commercial banks and wealthy governments. Although both debtor and creditor shared blame for the 1980s debt crisis, the costs of adjustment were borne asymmetrically by debtor countries, which suffered their worst economic decline since the Great Depression.

The Latin American debt crisis in 1982 sent shock waves throughout the financial world. By comparison to the Latin American debt crisis, which riveted world attention in the 1980s, several factors are quite striking. First, Africa's total debt amount is, by and large, relatively insignificant, only about 12 percent of the total developing countries' debt, which is yet a little more than that of Mexico or Brazil. As Susan George (1994, 14) has succinctly observed, it is too small to really give individual African governments any bargaining strength in the international arena. Secondly, most of the African debt, unlike the Latin American debt, is official and largely bilateral. As a result, African economies have continued to receive positive net

transfers in terms of grants from external creditors and donors, in contrast to middle-income Latin American debtor countries, which were making negative net transfers in the 1980s. Not surprisingly, creditor behaviour towards the African debt crisis is not driven primarily by profit maximisation, but rather by a more complex set of goals. Thirdly, the Latin American debt burden, although bigger, has been relatively more manageable if for no other reason than that their economies are comparatively large and diversified. Almost invariably, each Latin American economy has an important market for Northern American and Western European goods and services. As a result, their governments have not been without bargaining chips in negotiations with their international creditors (Adams 1991; Rugumamu 1993).

As pointed out earlier, different strategies by various actors were developed to address the debt crisis since it first came to a head in the early 1980s. They include, among others, ODA debt partial cancellation, conversion of loans into grants, commercial debt buy-backs, and various multilateral debt arrangements. In the process of debt workout, there are usually four parties responsible for generating a co-operative approach to the problem: the creditor countries, the indebted countries, the commercial banks, and the international finance institutions. On the whole, however, throughout the 1980s and 1990s the basic approach to managing the problem of servicing Africa's debt has been to reschedule official debt through the Paris Club on an annual basis as they fell due. In return, and for balance of payment support from the IMF and World Bank, African governments had to adhere to policy conditionalities in the form of stabilisation and structural adjustment programs. In recent years, non-governmental and religious organisations have come to play the advocacy role against further debt repayment by heavily indebted poor countries (Cardoso and Dornbusch 1989; Claessens et al. 1997; Carmichael 1989).

In 1985, in recognition of the inadequacy of resources available to assist countries in managing their debt commitments, a concessional Structural Adjustment Facility with the IMF amounting to SDR 2.7 billion was established. Two years later, the Enhanced Structural Adjustment Facility was established, funded at SDR 6 billion. These two facilities were designed to provide balance of payments support to debt stressed low-income countries, with a three-year program of economic reform and with a less rigorous quantitative conditionality than the IMF regular standby facility. These facilities did not radically alter the basic approach to debt management. Indeed, adherence to a structural adjustment program approved by the Fund was a requirement for any Paris Club agreement.

At the 1987 Venice Summit of the G7, the terms of Paris Club rescheduling were relatively eased. The new arrangement provided for repayments to be stretched to over 15 to 20 years, as against the 10 years previously granted, with a 10-year grace period. Even as debt-servicing payment was apparently reduced and rescheduled, arrears continued to accumulate to unsustainable levels. The 1988 Toronto Summit of the G7 agreed that the repayment period be extended to 25 years, with a 24-year grace period. A year later, the Brady Plan agreed that the commercial banks could reduce by 20 to

35 percent commercial debt owed by some middle-income debtor countries through write-off arrangements. In doing so, the banks would be supported with guarantees by governments and international financial institutions on the repayment of the remaining debt. As a result, the Brady Plan shifted the credit risk from commercial creditors to public ones. Moreover, it is important to emphasise that the criteria for the Paris Club agreements were rather strict. If a country qualified, it could get a 67 percent reduction on a portion of its outstanding debt, including arrears and overdue interest. The portion of debt eligible for reduction was only that incurred prior to the so-called "cut-off date." This is the date when a country first requested assistance from the Paris Club. Often the cut-off date was in the early 1980s. The debt incurred since then is ineligible for relief.

Some critics have argued that the African economic crisis and indeed its enormous debt burden have been persistent for so long because African governments have not been doing enough structural adjustment. As the above OAU quotation rightly suggests, African leaders seem to be blaming the international community for not doing enough to facilitate a reversal of the economic crisis, which, understandably, is not entirely of Africa's own making. As was earlier observed, the continent's future depends not only on adjustments of its internal political economy but also on fundamental changes in its relations with the core industrial economies of the North. Only when there are realistic changes in the global economic framework as well as in the development cooperation strategies, will the African continent stand a chance of sustainable development (George 1994; Rugumamu 1999).

The debt restructuring exercises, which followed the Toronto and Trinidad summits of the G7, did set the stage for a new approach to the resolution of the problem of Africa's debt burden. Proposals for reducing the debt stock and debt service were for the first time put on the table. However, these proposals had very limited impact on the financial situation of countries such as Côte d'Ivoire, Niger and Nigeria, whose debt structure was dominated by bank loans. Moreover, the issue of lending by the multilateral financial institutions remained virtually unaddressed. Indeed, the fact that loans contracted from these institutions could not be renegotiated, and even more, that accumulated arrears could not be tolerated, meant that some of the new resources obtained from bilateral creditors were being transferred back to service debts of the multilateral financial institutions. Be that as it may, the combined impact of those debt relief initiatives was essentially insignificant, particularly for low-income debt-distressed African countries. In fact, debts rescheduled though the Paris Club meetings were neither cancelled nor reduced. Rather, repayment was simply postponed and interest was charged, usually at market rates, and, at times, fines were imposed on the postponed amount. In other words, creditors assumed, for no apparent reason, that Africa's debt problem arose from some temporary liquidity squeeze rather than from long-standing structural difficulties.

At the Halifax Summit in June 1995, the G7 asked the multilateral financial institutions to study and recommend more far-reaching solutions to the debt crisis of

the poorest countries. The ultimate outcome was the Heavily Indebted Poor Countries (HIPC) initiative. The annual meeting of the World Bank and IMF in September of 1996 approved the program. According to the World Bank, the purpose of the initiative was to encourage improved economic and social performance in debtor countries, to facilitate the provision of interim finance to strong performers, foster a more productive relationship between creditors and debtors, and to provide debtor countries an exit facility from repeated debt rescheduling exercises. The modalities for implementing the HIPC initiative were based on two overriding principles - that of sustainability and eligibility. Sustainability refers to a debt level, which allows a debtor country to meet its current and future external obligations in full without resorting to rescheduling in the future or accumulation of arrears. Defining sustainability is much easier for debt from private sources than from public ones. For private sources of debt, sustainability is achieved when debt grows slower than the prevailing interest rates. For public sources of debt, sustainability is achieved when equilibrium is reached in the balance of payments and when the level of debt during the equilibrium period is low enough to make future debt service problems unlikely (World Bank 1998, 55).

In an effort to operationalise sustainability, the World Bank set forth technical specifications by which sustainability could be measured:

- the ratio of the net present value (NPV) of debt to exports should be within a range of 200-250 percent or below by the completion point;
- the debt-service-to-exports ratio should be within a range of 20-25 percent or below by the completion point;
- for countries at the decision point, there must be a ratio of exports to GDP of at least 40 percent; and
- countries at the decision point must undertake a substantial fiscal effort so as to ensure that the ratio of fiscal revenue to GDP is about 20 percent.

Turning to the issue of eligibility, the HIPC initiative set out some broad guidelines by which selection was made. Eligible countries must:

- be those that can borrow from the World Bank's IDA facility and not from IBRD;
- qualify for assistance under the IMF's Enhanced Structural Adjustment Facility (ESAF);
- have established a track record of three years of adjustment and reform supported by IMF/World Bank adjustment programs;
- face an unsustainable debt situation even after application of existing debt relief mechanisms;
- for borderline countries where there is uncertainty as to whether a sustainable debt position would be attained during the initial three years review, after

which the debt sustainability analysis is performed, a further three-year performance review will be undertaken to determine eligibility (IMF 1999).

The HIPC Initiative was divided into two stages of an internationally supported economic reform program of three years each. Eligibility was based on debt-sustainability, which followed several key steps. The first stage of the initiative builds on the existing three-year track record needed to qualify for a stock-of-debt operation from the Paris Club creditors. During this stage, a country established the required good track record of policy implementation and made full use of the traditional debt-relief mechanism. As a country completed the first stage and reached the "decision point," the executive boards of the IMF and the World Bank decided its eligibility for the initiative on the basis of a comprehensive debt sustainability analysis (DSA) as agreed upon jointly by the Bretton Woods staff and the country's authorities. The assessment indicated whether or not the debt relief mechanisms would be sufficient for the country to reach a sustainable level of debt by a designated completion date.

The respective country under review was required to meet performance criteria during the second stage in order to receive support under the initiative. The criteria included standard macro-economic indicators as well as progress on key structural and social reforms. The Paris Club creditors had indicated a willingness to provide debt reduction in Net Present Value (NPV) terms of up to 80 percent, on a case-by-case basis, with a flow rescheduling during the second stage and a stock-of-debt operation (equivalent to NPV debt reduction of up to 80 percent on eligible debt) at the "completion point." Other non-multilateral creditors were expected to provide debt relief on terms at least comparable with the Paris Club (Mountfield 1990).

For multilateral debt relief, it was proposed that a Trust Fund be created, financed by the multilateral development banks and bilateral donors, to repay multilateral debt obligations. The contribution of the IMF would be extended to the Enhanced Structural Adjustment Facility (ESAF). Although limited in its scope, the initial HIPC framework constituted a breakthrough for the following reasons.

(i) It represented a comprehensive and integrated framework. For the first time, debt relief was to be provided in a systematic operation by all creditors, bringing to an end the process of negotiations through different credit clubs.

(ii) Its reach extended to multilateral creditors. The steady growth of multilateral debt stock was at the heart of the debt problems facing poor countries, with the Bretton Woods agencies refusing to countenance debt reduction on the ground of their "preferred creditor" status. For the first time, the HIPC framework required multilateral creditors to reduce their claims.

(iii) It provided a basis for reducing debt obligations to levels consistent with the ability to pay. Sustainability thresholds were established to replace creditor rules aimed at maximising repayments and minimising the costs of debt relief, the aim being to provide a once-and-for-all exit from debt problems. Vulnerability indicators, such as dependence on commodities, public debt, and

> reliance on aid, supplemented the sustainability thresholds. The original HIPC framework was based on two measurements of debt sustainability related to export capacity. These were supplemented during 1997 by a fiscal threshold. These three criteria are a present-value-debt stock-to-export ratio above 200-250 percent; a debt-service ratio above 20-25 percent; and a present-value–debt-to-government-revenue ratio or fiscal threshold above 280 percent. To qualify for HIPC on the basis of fiscal criteria, countries also have to meet two attached conditions: a fiscal revenue-to-GDP ratio in order to test the country's tax raising capacity; and an exports-to-GDP ratio of 40 percent to test the coherence of the economy.

Welcome as indeed this debt relief initiative was, it had serious flaws, both in its design and implementation. Firstly, the eligibility for debt reduction was too closely linked to performance under the IMF/World Bank economic reform programs. It is no secret that many African governments have failed in the past to meet such conditionalities of adjustment and reform, especially macro-economic targets set by the two institutions. As earlier noted, these programs place too great a burden on people living in poverty. Secondly, the debt relief initiative was limited in effect. Far too few countries were viewed as sufficiently impoverished or indebted to qualify. The criteria initially used by the Bank and the Fund were the net-present-value-of-debt (NPV) to exports of 200-250 percent and the debt-service ratio of 20-25 percent, which were not only high but also arbitrary. In fact, these terms were derived from the experience of Latin American countries during the debt crisis of the 1980s – a situation that differs substantially from that faced by African nations today. Admittedly, the criteria were even higher for highly indebted African debtors than they had been in recent history.[7]

Thirdly, the criteria for eligibility and debt sustainability still left poor countries to divert scarce resources away from vital human needs and investment in authentic development. Ideally, the goal of debt reduction should not simply be sustainable debt but socially and environmentally sustainable development. As earlier emphasised, debt does not only impede economic development, it also hampers social development. For example, in Uganda, US$3 per person is spent on health, compared to US$17 per person on debt payment. In Zambia, between 1990 and 1993, US$37 million was invested in primary school education, while US$1.3 billion went to foreign creditors. Fourthly, only debts incurred before a designated "cut-off" point were eligible for the bilateral reduction plan. The cut-off date refers to the date of a country's first application for relief from bilateral debt owed to the rich countries, which constitute the so-called "Paris Club". For most countries, this date was in the early 1980s. Finally, the time frame for receiving debt relief was too long. Under typical HIPC debt relief conditions, countries had to establish a good track record for implementing IMF economic policy reforms for three years before receiving bilateral debt relief from creditor governments. They had to wait up to three more years to receive relief from international financial institutions such as the World Bank and IMF. Extremely low-income countries that are emerging from serious conflict but do not have a

demonstrated track record on IMF reforms (such as Rwanda, Liberia or Sierra Leone) would not qualify for HIPC for at least six years (IMF 1999).

Besides these built-in design problems, there were also several obstacles that were encountered in the implementation process. Political bickering and lack of political will among creditors led to serious problems in HIPC implementation. By the end of 1998, out of roughly forty-one heavily indebted poor countries that desperately needed debt reduction, only Uganda, Bolivia, Côte d'Ivoire, Burkina Faso, Guyana and Mozambique had entered into the agreement. Yet these "best case" countries were subjected to unnecessary delays in getting the requisite relief. Uganda and Bolivia, for example, had maintained economic reform programs for over a decade. They both had unsustainable debt burdens and their respective governments were committed to converting savings from debt into initiatives to reduce poverty. But because of foot-dragging by creditor countries, debt relief was delayed for a year; and, in Bolivia's case, the threshold for sustainability was set extremely high, thereby reducing debt relief. The initiative's full potential was undermined by the unwillingness of the IMF and some creditor governments to fully finance it.

Three years later, the recognised failure of the HIPC initiative to deliver on debt, coupled with aggressive world-wide campaigns in favour of debt cancellation compelled the G7 Summit in June of 1999 in Cologne to come up with fresh ideas. The Summit recommended that the scope of the initiative be revised so as to provide deeper, broader, and faster relief to poorer countries. In this regard, they promised US$100 billion in debt cancellation. In September of 1999, the creditors reached an agreement on how to finance the initiative at the annual meeting of the World Bank and IMF. The revised program has come to be known as the enhanced HIPC initiative. Among the notable innovations included the commitment to make poverty reduction the main objective for both the IMF and the World Bank. This was a major breakthrough with implications far beyond the dimensions of debt relief. IMF-World Bank programs in all low-income countries were now supposed to place poverty reduction at the "front and centre" of policy and financial support. Major reforms were promised in the design of IMF and World Bank programs to bring them into line with the achievement of the international poverty reduction goals. The mechanism for such support in low-income countries would be through the development of a nationally led Poverty Reduction Strategy Paper (PRSP), designed with the assistance of the IMF and in close consultation with civil society and the private sector. The PRSP is meant to combine a broad economic framework with the policy and institutional underpinning of growth, including institutional reforms and sectoral strategies. It is to be the framework for the Bank and Fund activities in the country, with the country's own targets and goals serving as the targets and goals the Bank and Fund monitor. Under the rules announced in September 1999, countries must gain World Bank and IMF approval of their PRSP before eligibility is confirmed. Approvals must satisfy the standard IMF criteria of macroeconomic and governance targets.

Under the enhanced HIPC, the PRSP will be prepared on a three-year cycle and will be accompanied by annual progress reports. It will identify: poor populations and the causes of poverty; strategies for overcoming poverty (i.e., social sector programs, actions to promote growth and capacity building, rural development, local infrastructure, job creation by the private sector, and the like); and outcome indicators that will be monitored through participatory processes. The PRSP, once approved by the IMF and the World Bank, will provide the basis for the tripartite agreement between the two financial institutions and the borrowing Government. This model – though originally conceived in the context of the HIPC debt relief initiative – is now envisaged to be the basic document for policy dialogue for all countries receiving concessional flows from the IMF and the World Bank. Thus, the PRSP replaced the Policy Framework paper as the overarching document that outlines policy directions and resource allocation frameworks. Similarly, the IMF's lending facility for poor countries, the Enhanced Structural Adjustment Facility, was subsequently renamed the Poverty Reduction and Growth Facility (PRGF), a facility that for the first time makes reducing poverty one of the IMF's explicitly stated goals. Specifically, the purpose of the new facility is "to support programs to strengthen substantially and in a sustainable manner (qualifying low-income members) the balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty" (IMF 1999). In April of 2000, a Joint Implementation Committee by the World Bank and IMF was established to manage the initiative (Abugre 2000, 6-7).

However, as the Overseas Development Council Task Force on the Role of the IMF succinctly concluded, "the gains from these two initiatives have been substantially oversold." The report argues that, if anything has been learnt over the past 50 years about development, it is that poverty reduction takes time. It certainly takes longer than the three years allotted to one PRGF program. Moreover, ownership will certainly help the sustainability of policy reforms, but ownership is not easily achieved. Given the dynamics between the Bank, the Fund, and African countries, there is a concern that these two lending institutions will heavily influence the PRSPs towards their own policy preferences. In some ways, they will do so even if they do not try, because these desperate countries will generally know the kinds of policies that the Bank and Fund are likely to support financially (Overseas Development Council 2000, 3). Indeed, as Zartman (1971:15) insightfully observed, "power is the ability of one party to cause another to change behaviour in an intended direction."

Moreover, the debt sustainability targets for the enhanced HIPC were revised downwards: from 200-250 percent debt stock-exports to 150 percent; and the government revenue side was reduced from 280 percent debt stock-revenue to 250 percent. The threshold for countries to benefit under the revenue target, whereby countries must meet specified export and revenue thresholds to be eligible, were reduced from 40 percent exports-GDP to 30 percent, and from 20 percent revenue-GDP to 15 percent. At the same time, the Paris Club bilateral debt service relief was increased from 80 percent to 90 percent, or more in exceptional cases, of eligible debt. For countries not qualifying under HIPC, the Paris Club would consider offering

Naples Terms of 67 percent reduction. In addition to the debt relief under HIPC, the G7 promised full cancellation of ODA debts.

One of the key criticisms of the initial HIPC initiative was the pace of implementation. This was largely because countries entering HIPC had to complete two successive ESAF programs of the IMF, which would take up to six years, although this could be reduced for exceptional performers. This requirement was essentially to ensure that the debt relief was given only to countries with sound macroeconomic environments – and thereby ensure that countries do not become highly indebted again. This eligibility requirement, coupled with inflexible interpretation, led to serious delays in providing debt relief through HIPC. As a result, only 4 out of 41 countries had actually received the benefits of HIPC in the first three years of eligibility. In recognition of these shortcomings, the revised program seeks to be more efficient by providing interim debt service relief and by making completion points more flexible. In this regard, the multilateral agencies will provide debt service relief comparable to that provided by the Paris Club between decision and completion points. This plan will, hopefully, free up resources for poverty reduction during the interim period. Moreover, countries that meet "ambitious policy targets that deepen structural reforms and enhance social sector investments" would be rewarded with an earlier completion point (IMF 1999).

In addition, creditor nations pledged to mobilise adequate resources to address poverty reduction and human development. In this regard, they pledged to cancel US$100 billion as quickly as possible. Surprisingly, by mid-2000, the Trust Fund had raised only US$2.4 billion in pledges and paid-in contributions from bilateral donors. Undoubtedly, this amount still leaves the enhanced HIPC initiative with significant resource shortfalls, and this will obviously delay its implementation. While the United States pledged $600 million over three years, payment is still held up by Congress. The European Union's pledges of Euro 734 million have still not been transferred. Japan has only recently increased its Trust Fund contribution to $200 million. Meanwhile, Japan, France, and Germany have still failed to move to the 100 percent ODA debt cancellation equivalent that was agreed by Canada, the United States, and Britain. More perturbing, political commitments are not being matched by political will or by commitments of resource mobilisation. As Oxfam (2000, 2) has presciently concluded, "this lack of generosity and spirit undermines the potential for poverty reduction in indebted countries." This failure further blocks progress on achieving internationally agreed upon development targets.

Surprisingly, as of July of 2000, only nine countries, namely, Benin, Bolivia, Burkina Faso, Honduras, Mauritania, Mozambique, Senegal, Tanzania and Uganda had qualified for debt reduction, accounting for a total of US$11.9 billion. Most countries have not benefited from the enhanced HIPC initiative in part because they have frequently failed to meet the IMF stabilisation program targets and in part because some of them have been embroiled in civil wars. In fact, by mid-2000, 13 of the 41 HIPCs that were involved in internal conflicts disqualified themselves from

being considered for debt relief. Coincidentally, at its annual G7 Summit in Nago, Japan, in July of 2000, the leaders of the major creditor countries recommitted themselves to speed up the implementation of the Cologne agreement and stressed the need for HIPCs to undertake the policies specified by the IMF and World Bank in order to meet the conditions for qualifying for debt relief. While the PRSP is an attempt to foster social development, macro-economic conditions by the IMF for loans and debt relief have not changed. These conditions – which include administrative and fiscal reform in the context of austerity programs as well as measures for further liberalisation of trade and finance – have destroyed local productive capacity, increased unemployment, and degraded the quality of public social services.

What is even more important to remember is the fact that the HIPC initiative was designed by creditors and is largely controlled and managed by creditors. They have the power to decide who gets what, when, and how. Although Uganda reached its "completion point" early in 2000, the Paris Club could not cancel its debt. The decision to delay the cancellation process was prompted by the US State Department's request to the Paris Club following the fighting between Ugandan and Rwandan troops in the Democratic Republic of Congo. Incidentally, Uganda had previously been deferred due to "donors' anger" over the government's decision to purchase a presidential jet, at an estimated cost of US$30 million (Jubilee 2000, 10-11).

Table 3. Debt reduction for 5 countries through the enhanced HIPC initiative (US$ million)

Countries	Debt 1998	Nominal reduction	Debt service before HIPC	Debt service after HIPC	Reduction in debt service	Education spending	Health spending
Uganda	3,935	1,950	155	50	67%	174	126
Bolivia	6,078	2,060	329	240	27%	442	325
Mauritania	2,589	1,200	116	80	31%	51	17
Tanzania	7,603	3,000	162	150	7%	154	87
Mozambique	8,208	4,300	112	45	60%	96	57
TOTAL	30,411	12,510	874	565	35%	917	612

SOURCE: Jubilee 2000, an emerging scandal http://www.jubilee2000uk.org/reports/scandal/html), table 2.

Even after implementing the enhanced HIPC initiative, the respective countries' debt burden will remain overly onerous. As indicated in table 3, the total debt of five countries (1998 in net present value) that have reached the "decision point" is just over US$17 billion, and the reductions under the enhanced and original HIPC initiative is just under US$7 billion. The annual debt payments will be reduced by a similarly modest amount. The debt service for these countries before HIPC totalled US$874 million, whereas debt service after HIPC was estimated at US$565 million. This represents a fall in debt service of only 35 percent. Table 3 shows the reductions for each country, and the relative spending in health and education. The case of Tanzania

is quite revealing. The country reached the "decision point" in March 2000. It is expected to have well over one-third of its US$6.5 billion debt written-off – over US$2 billion – and this debt relief will be delivered over a number of years, starting some time in the summer of 2001. After debt relief, Tanzania will be paying around US$150 million a year in debt service, a mere reduction of 7 percent – about twice the amount that will be devoted to the health sector. In short, these palliative relief measures are not likely to resolve the country's debt crisis in the near future nor will the continent as whole be likely to fare any better. There is need, therefore, to go back to the drawing board.

5. CONCLUSION

It is the firm position of this paper that, irrespective of whether or not Africa's external debt should be repaid, such payments cannot and will not be met given the structural, political, and economic constraints that the continent currently faces**.** If, indeed, economic growth and poverty reduction are at the heart of the emerging development co-operation crusade, then the very conditions that give rise to stagnation and marginalisation should be tackled head on. In these circumstances, debts should be paid only as a result of economic growth, not through reduced consumption and austerity as in the current practice. Moreover, realistic debt relief must not be conditional upon controversial structural adjustment measures that in many cases have only made the poor poorer. For countries of such limited revenue bases and such intense levels of deprivation, resource transfers from Africa to rich countries usually carry high opportunity costs. Such costs are reflected in the notorious imbalances between the ever-growing spending on debt repayment and the declining public spending on health and education in many of the HIPCs. As discussed above, such unpropitious socio-economic realities, as well as the exigencies of social justice and morality, provide compelling arguments against debt repayment.

For Africa's low-income, disease-stricken, debt-stressed, primary commodity economies, the arguments for debt cancellation are disarmingly straightforward: debt repayment is economically exhausting as it continues to block future development; it is politically destabilising as it threatens social harmony; and it is ethically unacceptable as it hurts the poorest of the poor.[8] Moreover, much of Africa's accumulated debt is a result of ill-conceived creditor-supported development projects and programs, flawed policies and strategies that originated from development co-operation agencies in exchange for Cold War support; and, admittedly, short-sighted policy decisions by African leaders. In all fairness, therefore, Africa's unsustainable debt should be responsibly accepted as a shared responsibility of creditors and debtors alike. By the same token, the resolution of this crisis should be an equally shared responsibility. Above all, cancelling Africa's debt would have only a negligible impact on international financial institutions and markets.

It should be remembered that most poor Africans, who now bear the brunt of debt payment, did not directly benefit from the loans that gave rise to the debt crisis. Its

cancellation, if carried out in ways that directly benefit the poor and excluded, would lift them out of their current abject poverty. It is against this background that major debt cancellation campaigners are calling for a new, more disciplined approach to international borrowing and lending that will break the damaging cycle of reckless lending and unsustainable borrowing. It is further recommended that an International Insolvency Body be established that would be entrusted with resolving the debt problem. Such a body would act on the basis of international insolvency regulations and would act as an arbitrator between debtors and creditors. The principle that individual and corporate debtors should not be left to the mercy of creditors is widely accepted. The same principle should be extended to sovereign debts. It would also go a long way towards attacking the complicity of Western banks and some Africans likely to engage in money laundering. Unfortunately, previous and current loan transactions were, and are, shrouded in secrecy. This cloud of secrecy accounts to a large extent for the reasons why it has become almost impossible to recover resources that were diverted by corrupt regimes, institutions, and individuals to European and American banks.

Together with debt cancellation, African governments and civil society will have to work closely with their enlightened development partners in order to achieve economic growth, poverty reduction, and institutional development. The 1995 Copenhagen World Summit for Social Development and the Development Assistance Committee of the OECD in its 1996 report, *Reshaping the 21st Century*, committed themselves to various noble development ideals. These included, among others, debt relief and poverty reduction. Both reports recognise the fact that, while the primary responsibility for establishing and implementing strategies for meeting social development targets lay with the national governments, an enabling environment for social development needed to be created by the international community. Adequate support, including resources and other forms of assistance, has to be provided by the international community. Surprisingly, developed countries have not taken their commitments seriously; nor have they honoured such commitments. It is high time those important commitments were revisited.

NOTES

1 Dr. Severine M. Rugumamu is Professor of Development Studies at the University of Dar es Salaam, Tanzania.[1]

2 The HIPCs comprise 41 countries, of which 32 are classified as severely indebted low-income countries (SILICs) according to the World Debt Tables 1994-95 classification.

3 In its recent report Oxfam (1998b, 1) lamented that "in East Asia, over $100 billion has been mobilised in a space of a few months, with the IMF bending its rules in every conceivable direction to ensure rapid disbursement. In the case of the highly indebted poor countries in Africa and elsewhere, it has apparently been impossible to drive forward an initiative which will cost around $7 billion over five years".

4 The Jubilee 2000 movement draws its inspiration from the book of Leviticus in the Hebrew Scriptures, which describes a Year of Jubilee every fifty years. In the Jubilee Year, social inequalities are rectified: slaves are freed, land is returned to original owners, and debt cancelled. The Jubilee 2000/USA Campaign was launched in Denver at the Summit of the Group of 8 in June 1997 by a Religious Working Group of the World Bank and IMF.

5 Of the $129 billion that flowed to developing countries in 1997, Africa attracted only $5 billion or 4 percent of these inflows (concentrated in Nigeria, Angola, Egypt and Morocco), its lowest share since the early 1980s. By stark contrast, in the same year, direct foreign investment flows to Latin America and to South, East, and South-East Asia were $39 billion and $81 billion, respectively (UNDP 1997).

6 Both the incidence and depth of poverty have been on the rise since the mid-1970s. It has been estimated that 54 percent of the people in Sub-Saharan Africa live in absolute poverty. For details see UNDP (1994, 165).

7 In the early 1970s, Africa supplied 83 percent of the cocoa, 28 percent of the coffee, 26 percent of the copper, 16 percent of the cotton, and 13 percent of the iron ore in the world market. Two decades later, the share of these commodities has declined precipitously to 61 percent for cocoa, 16 percent for coffee, 14 percent for copper, 12 percent for cotton, and 6 percent for iron. The major part of the decline is attributable to new producers in Latin America and South East Asia, and to declining demand due to technological evolution and changing consumer tastes (ECA 1996).

8 There are various lessons that we can draw from history: (a) During the 1920s, 13-15 percent of the exports as reparation payments by Germany was perceived as too high and was considered as one of the factors that brought about the rise of the Nazis. (b) In 1953 in the London Agreement, the allies agreed to a substantial cancellation of the German debt. Initially, they asked for a debt-service ratio of 10 percent but German negotiators argued that it was too high. The creditors settled for 3.5 percent. (c) Britain reached a debt settlement with the United States in 1944, which called for a debt service ratio of 4 percent. (d) After eliminating communists, General Suharto obtained debt relief for settling his debt on a 6 percent debt service ratio. In short, the World Bank and the IMF have defined as sustainable debt for HIPCs at a level, which was historically considered unsustainable. For concise details, see Hanlon (1998).

9 This argument is even more compelling when one considers some of the morally unjust circumstances under which Africa's debt was incurred, ranging from the apartheid caused debt, unfair international trade and investment to the corrupt diversion of development finance to Swiss banks.

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