The Institute for Domestic and International Affairs, Inc.

Economic Commission for Africa

Debt Reconciliation

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Introduction

The colonial history of the continent permanently altered Africa's once autonomous economic infrastructure, forcing states to become dependent on external markets. Even after colonial powers granted their African colonies independence, these difficulties have lingered. African states were largely reliant on the markets and businesses of Western countries for survival, as colonial occupiers developed the infrastructure of these states to support their needs, and generally not for the general interests of the occupied. As a result, African states are faced with insurmountable debt while lacking the means necessary to develop their own economies, or to repay these loans.

After the era of European colonialism ended, African states were granted independence but were not freed from the debt generated by the states' former colonial powers. For a variety of reasons, African states have been unable to break from this debt cycle. A central explanation is the general economic dependence the continent has on Europe, the United States, and other foreign markets. African states typically generate money through the exportation of natural resources and manufactured goods, with the majority of both benefiting foreign entities instead of the people living in the states that export them. Many African states, including South Africa, Uganda, Democratic Republic of Congo, and Rwanda, are managing debts often seen as "odious debts," or debts that came as a result of another regime's atrocities against its people. Non-governmental organizations (NGOs) such as Jubilee 2000 and Africa Action call for the cancellation of these debts so as to allow these states the opportunity to determine their own future. They argue that it was the people who suffered when the money was wasted and it is the people who suffer in order to pay the money back. Government corruption and mismanagement is one of the greatest causes of debt in Africa, as government accountability is difficult to accomplish.

Perhaps the most controversial contributors to African debt are the very entities aiming to eliminate it. External creditors, especially the International Monetary Fund and the World Bank, continue to loan African states money despite the ineffectiveness of previous loans and the incredible debt states already have. African states are forced to devote significant portions of their Gross Domestic Product (GDP) to service their debts, siphoning money away from much needed healthcare, education, and other social welfare programs. Often, states will only have enough funds to pay off the yearly interest on their existing loan, leaving the principle to accumulate more interest and remain unpaid. Cancellation of debts, while a novel idea, has not proven to be the panacea to African debt that many had hoped it to be. Studies have demonstrated that states are likely to accumulate significant debt even after their original debt was cancelled.

Gross Domestic Product:
The total market value of all final goods and services produced in a country in a given year; equals total consumer, investment and government spending, plus the value of exports minus the value of imports.

Debt Service:
Repayments of principal and interest. The debt service ratio is a measure of a country's debt burden and it expresses debt service as a percentage of total export revenues or GDP.

Before the debt cycle can be stopped and poverty effectively dealt with on the continent, African states must work together to make once insurmountable debts sustainable, or able to be managed. Debt sustainability is defined as "the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth."[1] Even with debt cancellation, debt reconciliation takes a significant amount of time. In order for this to occur, states must be able to develop economically while simultaneously paying down the balance of their loans. Unsustainable debts typically grow out of control. In a worst-case scenario, a state will default on its debt causing many deleterious results, such as ruining the state's credit, suspension of further loans, and ensuing financial instability.

[1] E.S.K Muwanga-Zake and Stephen Ndhaye, "The HIPC Debt Relief Initiative—Uganda's Experience," August 2001, 8

The Economic Commission of Africa (ECA) seeks to help states avoid these developments, promoting regional integration and cooperation in order to foster conditions that allow African states to manage their debt. Through policy advocacy and analysis, the Commission seeks to unify African states' policies on debt management and infrastructure development.

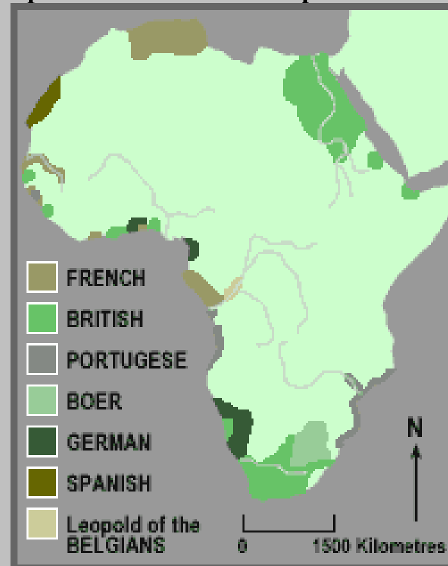
Background

Colonialism

Africa was not always in a state of poverty and economic hardship. Prior to significant European intervention, Africa had an independent and stable economic system, and before the 18th Century, nations in Africa had largely autonomous economies based on trade roots with Middle Eastern and European traders.[2] While Europeans relied on African slave labor and instituted an African slave trade, the interior of Africa was largely unexplored, and areas on the African coast were primarily used as trading posts.[3]

European involvement reached its height in the mid-18th Century during what is now

European Colonies in Africa prior to the 1880s



European Colonies in Africa, 1914

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[2] Alemaheyu Geda, "The Historical Origins of the African Debt Crisis," University of London, January 2003, via Project Muse.

[3] Mary Lynette Larsgaard, "Of World Continental Land Surfaces," University of California Santa Barbara, 1991, http://www.library.ucsb.edu/people/larsgaard/plan1800.html (accessed 21 September 2006)

Scramble for Africa:
The Scramble for Africa was the period between the 1880s and the start of World War I, when colonial empires in Africa proliferated more rapidly than anywhere else on the globe. It is the canonical example of the New Imperialism.

referred to as "The Scramble for Africa." When the Industrial Revolution was at its height, European states began to seek new land for resources to fuel their industrial, capitalist economies while simultaneously hoping to increase their prestige and power.[4] As the desire for African territory increased, European leaders, particularly German Chancellor Otto von Bismarck, began to realize that disputes over claimed territories might lead to war. To avoid this potential, Bismarck convened the Berlin West African Conference of 1884, calling on European leaders to divide African territory in a "civilized" manner. Conveniently, Bismarck did not invite any African leaders to the conference.[5] By 1914, almost all of Africa had been claimed by European powers with the exception of Ethiopia, which successfully defended itself against Italian forces, and Liberia, an independent state founded by freed slaves from the United States.[6] Africa's colonization did not simply entail the division of land between the European powers; colonization affected the culture, economy, land boundaries, and infrastructure in ways that are still felt today.

Causes of African Debt

Economic Dependence

Colonization can be defined as "[t]he appropriation of lands, goods, and human resources by foreign nations … outside forces become dominant in their control of these resources, denying and destroying the sovereignty and culture of the indigenous

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[4] "The Story of Africa," BBC World Service, http://www.bbc.co.uk/worldservice/africa/features/storyofafrica/index_section11.shtml (accessed 21 September 2006)

[5] Thomas Pakenham, *The Scramble for Africa: The White Man's Conquest of the Dark Continent from 1876 to 1912*. New York: Random House, 1991, p. 14.

[6] "The Scramble for Africa," *The Economist* (Millennium Issue), 23 December 1999, http://www.economist.com/diversions/millennium/displayStory.cfm?Story_ID=347120 (accessed 21 September 2006)

peoples."[7] A more economically tailored explanation is, "exploitation by a stronger country of weaker one; the use of the weaker country's resources to strengthen and enrich the stronger country."[8] Both definitions are relevant in the case of Africa. The continent was exploited for its natural and human resources, as people were subjugated to Europeans as well as slaves to European economies. European states sought to become "self-sufficient" through the resources and labor of their African colonies, introducing strategic methods such as share-cropping and cash-cropping to achieve self-sufficiency.

Colonial powers also used violent methods. European forces relocated and killed Africans to make way for European farmers; farm laborers were deprived of food they produced to maintain their dependence on the colonial power, and Africans were required by military force to abandon small-scale manufacturing industries and trade with rival European nations. European colonization resulted in the dependence of African economies on their mother countries. The once autonomous and largely agricultural African economies became export-reliant systems that sold cash crops, minerals, and foodstuffs to European states while relying on them to supply goods Africans once produced and grew themselves.[9] Even though all African nations were eventually granted independence, the effects of colonialism are still present today. Africa's economic dependence on foreign nations has increased greatly, and has extended into the realm of debt management. Without greater economic independence and self-sustainability, Africa will continue to be in a cycle of debt.

Odious Debt

In addition to establishing a European-dependent economic system, colonial powers also began Africa's cycle of debt in other ways. Jubilee USA, a non-

[7] "Terms and Definitions," The Sage Colleges, http://www.sage.edu/academics/schoolofprofessionalstudies/management/programs/definitions.htm (accessed 21 September 2006)
[8] "Word Net Search 2.1," Princeton University, http://wordnet.princeton.edu/perl/webwn?s=colonialism (accessed 21 September 2006)
[9] Alemaheyu Geda, "Debt Issues in Africa: Thinking Beyond the HIPC Initiative to Solving Structural Problems" Addis Ababa University, August 2001, p 13-14

governmental organization (NGO) devoted to the cancellation of what it deems illegitimate debts, defines 'odious debt' as:

> debt that resulted from loans to an illegitimate or dictatorial government that used the money to oppress the people or for personal purposes. Moreover, in cases where borrowed money was used in ways contrary to the people's interest, with the knowledge of the creditors, the creditors may be said to have committed a hostile act against the people.[10]

Jubilee USA, along with other critics of external lenders, believes that inherited debt should not be paid if it results from government action that is contrary to the state's welfare. After all, the brunt of these debts is essentially paid by the labor of the country's people who have virtually no say on how their government chooses to spend loans. Two types of odious debt are *apartheid* debt and debts caused by government corruption and mismanagement.

Debt Caused by *Apartheid*

Apartheid was a system of racial segregation imposed in South Africa from 1948 to 1994. In addition to having their labor exploited, Black South Africans, Asians, Indians, and other "Coloureds" were denied basic human and political rights.[11] The *apartheid* system also attempted to extend its power by attempting to force nearby states to support the practice by oppressing them physically and economically. The regime waged war against Mozambique and Angola and imposed economic blockades on Lesotho, Botswana, Zambia, Zimbabwe and Malawi.[12] South Africa's tactics, known as destabilization, were costly, causing affected nations to borrow money in order to support their economies. Originally, these loans were in the spirit of international solidarity against the *apartheid* regime, but the cost of South Africa's tactics was so great that eventually these debts became more than just a

> ***Apartheid*:**
> "Separateness," (Afrikaans, Dutch); policy implemented by National Party government (1948-94) to maintain separate development of government-demarcated racial groups; also referred to as "separate development," an d later "multinational development"; abolished by Constitution of the Republic of South Africa of 1993.

[10] "Iraq's Odious Debt: Rhetoric to Reality," Jubilee USA, http://www.jubileeusa.org/press_room/iraqdebt.pdf (accessed 22 September 2006)
[11] "Human Rights, Historical Images of *Apartheid* in South Africa," United Nations, http://www.un.org/av/photo/subjects/*apartheid*.htm (accessed 22 September 2006)
[12] *Ibid*

burden. In many countries, paying back the loans used more government money than the health and education budgets combined. As such, these states began spending more money on repaying loans than they did on providing essential services to their citizens. Repayment of these loans severely set back the necessary post-*apartheid* reconstruction needed to revitalize South Africa's economy as well as the economies of surrounding states.[13]

In South Africa, deliberate measures were taken by the *apartheid* regime to economically depress Blacks and other non-Whites. Blacks were segregated into "homelands," districts away from White areas. White areas tended to be economically significant with substantial commerce, whereas Black areas were poorly maintained slums. Blacks were prohibited from owning or operating businesses in White areas without a permit, owning land, traveling into White areas, or participating in government.[14]

***Apartheid* Debt Across Southern Africa**

State	Cost of destabilisation £ million	*Apartheid* Debt £ million
Angola	22, 727	6, 432
Botswana	379	152
Lesotho	227	91
Malawi	1, 629	724
Mozambique	11, 364	4, 545
Swaziland	152	0
Tanzania	985	492
Zambia	3, 788	1, 905
Zimbabwe	6, 061	2, 273
Sub-total	47, 311	16, 614
South Africa		11, 345
Total	**47, 311**	**27, 959**

Despite the country being deemed upper-middle class due to its per capita income in excess of USD $3,000, a 1993 study found that half of all Black South Africans lived in poverty.[15] Four years after the official end of the *apartheid* regime, a 1998 report compiled by Action for South Africa estimated:

> '[A]partheid-caused debt' [is estimated] at £28 billion [USD $46 billion]. That is the £11 billion [$18 billion] that South Africa borrowed to maintain *apartheid*, and the £17 billion [$28 billion]

[13] I*bid*
[14] *Ibid*
[15] Michael R. Carter and Julian May, "One Kind of Freedom: Poverty Dynamics in Post-*Apartheid* South Africa," *World Development,* Vol 29, No 12, p1987

that the neighbouring states borrowed because of *apartheid* destabilisation and aggression. This is 74% of the present regional debt of £38 billion [USD $62.5 billion].[16]

Today, South Africa is considered one of the more economically successful African nations, although this label is arguably misleading. South Africa is not included in the World Bank's Heavily Indebted Poor Countries (HIPC) initiative because it ranks 64th among 208 economies tracked by the World Bank. South Africa's average income of USD $11,000 is six times that of the average income in sub-Saharan Africa. Despite this seeming economic progress, South Africa has one of the greatest income disparities in the world. Many *apartheid* traditions, such as unequal access to land, housing, education, employment, and healthcare are unofficially still in practice. Jubilee Research, an international debt and finance program, estimates that USD $11.7 billion of South Africa's current foreign debt comes from interest on *apartheid*-era loans. [17]

Government Corruption and Mismanagement

Government corruption and mismanagement, while two separate causes of increased public debt, often go hand in hand. Corrupt governments often use money loaned by external creditors to accumulate personal wealth, encourage nepotism, and for other improper purposes. The distinction between these two practices is that government corruption is more often associated with a dictator seizing his state's assets for personal benefits, whereas mismanagement implies that government money is, to an extent, being spent on the people of the state, although not as efficiently as it could be.

Mobutu Sese Seko

An example of governmental corruption is in the thirty year reign of Mobutu Sese Seko in Zaire, today known as the Democratic Republic of Congo. When Mobutu first took power in 1965, he ensured the political and economic support of the United States by allowing Zaire to be a springboard

[16] "Paying Twice for *Apartheid*"
[17] Gerald Lenoir, "South Africa, *Apartheid* Debt, and Reparations" *Africafocus Bulletin*, http://www.afsc.org/africa-debt/learn-about-debt/south-africa.htm (accessed 22 September 06)

for operations against Soviet-backed Angola. After the Cold War ended, the United States lost interest in Zaire, especially because of reports of rampant human rights abuses.[18] Mobutu's reign, often referred to as a kleptocracy, largely depended on the diversion of funds from the public sector for his own personal gain. During his reign, Mobutu and his associates stole up to fifty *per cent* of Zaire's capital budget as well as hundreds of millions of dollars worth of mineral export revenues, foreign aid and loans, and private investment. Despite extensive diamond, cobalt, and copper resources, oil deposits, and immense hydroelectric and agricultural potential, Zaire's per capita income dropped by almost two-thirds since its independence in 1960. Zaire was listed as the lowest of all 174 countries in the UNDP's 1996 Human Development Report.[19]

Kleptocracy:
Kleptocracy is a pejorative, informal term for a government so corrupt that no pretense of honesty remains. In a kleptocracy the mechanisms of government are almost entirely devoted to taxing the public at large in order to amass substantial personal fortunes for the rulers and their cronies or to keep said rulers in power.

To compensate for his spending and stealing habits, Mobutu obtained loans from external creditors, which did little to help the dire state of Zaire's economy. Mobutu continued to siphon away the money into overseas bank accounts and external debt mounted as the state of the nation deteriorated rapidly. By the 1980s, Mobutu had amassed a personal fortune of USD $4 billion, while Zaire accumulated a debt of USD $9 billion by the end of that decade.[20] When Mobutu's regime finally fell to a *coup d'etat* in May 1997, Zaire had approximately USD $12 billion in external debt, most of which was already in default.

Coup d'etat:
A sudden and decisive act in politics, usually bringing about a change in government unlawfully and by force

[18] "Country Profile: Democratic Republic of Congo," BBC News, 8 Friday 2006, http://news.bbc.co.uk/2/hi/africa/country_profiles/1076399.stm (accessed 23 September 2006)
[19] Carole J.L. Collins, "Congo/Zaire" *Progressive Reports*, Vol 2, No 37, http://www.fpif.org/briefs/vol2/v2n37cz_body.html (accessed 24 September 2006)
[20] David Malin Roodman, "Still Waiting for the Jubilee: Pragmatic Solutions for the Third World Debt Crisis," Global Policy Forum, 26 April 2001, http://www.globalpolicy.org/socecon/ffd/debt/2001/solu0508.htm (accessed 23 September 2006)

NGOs like Jubilee 2000 Coalition call for the cancellation of debts for the new government, especially because of the lending tactics of Zaire's creditors. Jubilee 2000 writes:

> The Financial Times revealed on 12 May 1997 that Zaire's case highlights a situation of corrupt lending. $8.5 billion was secretly lent to Mobutu during the 1980's by Western Governments and International Institutions such as the IMF and World Bank for strategic political reasons and for business opportunities. This was despite the fact that their *own* investigative reports revealed that the loans were being corruptly diverted.

Citing an inability and an increasing unwillingness to pay the debts from the Mobutu regime, the Democratic Republic of Congo has defaulted on the loans obtained by the Mobutu regime since the 1990s. The IMF and World Bank have forgiven some USD $6.3 billion in debt to the Democratic Republic of Congo, the arguably odious debt is still deemed "unsustainable" by IMF standards.[21]

Nigeria is a prime example of government mismanagement. Nigeria has generated more than USD $350 billion in oil revenues since 1965. Since 1970, the number of Nigerians earning less than a dollar a day has risen from thirty-six *per cent* to seventy *per cent*. An IMF working paper exposed the Nigerian government's extreme mismanagement of oil revenues, calculating that if oil funds were managed correctly there would be approximately USD $750 USD per Nigerian adult.[22] During a four-year period in the early 1980s, Nigeria's debt skyrocketed from USD $5 billion in 1981 to more than USD $25 billion in 1986. Analysts attributed the growth to the collapse in oil prices, massive and irresponsible government spending, and graft and mismanagement by the military regime.[23] According to the IMF working paper, oil profit-driven government misconduct had a ripple effect on all aspects of the Nigerian government. Increased corruption, unwise investments for costly and largely unprofitable projects, a budget vulnerable to price volatility, and overvalued currency all resulted from extreme

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[21] "Democratic Republic of Congo," Jubilee Research, http://www.jubileeresearch.org/databank/profiles/congodem.html (accessed 23 September 2006

[22] "N http://www.forbes.com/work/newswire/2003/08/01/rtr1046043.html igeria should give oil wealth to people-IMF paper," *Reuters*, August 01, 2003, (accessed September 23, 2006)

[23] "The Burden of Debt" Online News Hour, PBS, July 2003, http://www.pbs.org/newshour/bb/africa/nigeria/debt.html (accessed 23 September 2006)

government mismanagement of Nigerian funds.[24] For more than fifteen years, Nigeria has owed more than USD $25 billion to international and commercial lenders. Seven *per cent* of Nigeria's economic output in 2002 was dedicated to paying off the interest of its public debt. The total debt of USD $31 billion represents more than seventy-one *per cent* of the country's entire gross domestic product.[25]

The IMF has criticized Nigeria's lack of fiscal responsibility. According to a PBS news bulletin, the IMF reported:

> The origins of Nigeria's external debt problems date back to the policies pursued during the 1970s oil boom that led to extreme vulnerability to downturns in the oil price. Successive governments emphasized heavy investment in public works, primarily aimed at building import-substituting industries.[26]

In addition to criticizing Nigeria's investments in non-competitive industries, the IMF is also quick to expose exorbitant public programs that cost Nigerians money that could be spent on infrastructure development. Rather than spend money on education or healthcare, the government built a state-of-the-art sports stadium, completed in April 2003. The stadium's cost is estimated at $472 million, greater than what the Nigerian government budgeted for either health or education that year.[27]

Addressing Multilateral Debt

The International Monetary Fund (IMF) and the World Bank are both international organizations dedicated to providing loans to countries in need. Whereas the World Bank focuses on humanitarian programs, the IMF exists to support states in severe economic crisis. Both the IMF and the World Bank have come under much criticism, with some arguing that these institutions do more to further than alleviate debt in Third World nations. In response to these criticisms, the IMF and the World Bank have developed with new initiatives to more effectively service the debts of the poorest nations in the world.

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[24] "Nigeria should give oil wealth to people-IMF paper"
[25] "The Burden of Debt"
[26] I*bid*
[27] *Ibid*

HIPC and MDR Initiatives

In 1996, the IMF and World Bank decided to take revamp the aid process for Heavily Indebted Poor Countries (HIPCs). The HIPC initiative, jointly introduced by both the IMF and the World Bank, was the first debt relief measure designed to relieve multilateral debt. The organizations aimed not only to cancel debt between HIPC nations and the IMF and World Bank, but also debt between HIPC nations and other international lenders like the Paris Club. HIPC initiatives also aided in the relief of bilateral debt, or money owed by one state to another. The goal of the IMF was to ensure that "no poor country face[d] a debt burden it [could not] manage."[28]

Paris Club:
Informal name for a consortium of Western creditor countries (Belgium, Britain, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, and the United States) that have made loans, or have guaranteed export credits, to developing nations and that meet in Paris to discuss borrowers' ability to repay debts. Paris Club deliberations often result in the tendering of emergency loans to countries in economic difficulty or in the rescheduling of debts.

The HIPC program is structured as a three step system designed to prevent government mismanagement of funds and ensure absolute adherence to IMF suggested policies within the indebted nation. The process begins with an evaluative period known as the Pre-Decision Point where experts from both the World Bank and the IMF evaluate the progress of a heavily indebted state. The evaluative period is followed by the Decision Point, at which time the IMF and World Bank

HIPC Initiative Countries

Completion Point (20 countries)	Decision Point (9 countries)	Pre-Decision Point (11 countries)
Benin	Burundi	Central African Republic
Bolivia	Chad	Comoros
Burkina Faso	DR Congo	Côte d'Ivoire
Cameroon	Republic of Congo	Eritrea
Ethiopia	The Gambia	Haiti
Ghana	Guinea	Kyrgyz Republic
Guyana	Guinea-Bissau	Liberia
Honduras	São Tomé Príncipe	Nepal
Madagascar	Sierra Leone	Somalia
Malawi		Sudan
Mali		Togo
Mauritania		
Mozambique		
Nicaragua		
Niger		
Rwanda		
Senegal		
Tanzania		
Uganda		
Zambia		

Source: The World Bank

[28] "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative," International Monetary Fund, http://www.imf.org/external/np/exr/facts/hipc.htm (accessed March 31, 2006)

will formally recognize a state as qualifying for the initiative, provided the state was deemed to be making sufficient progress during the evaluative period by adhering to IMF policies. Once a state is formally recognized, it immediately moves into the second step of interim relief where part of their debt is canceled. To receive the maximum amount of debt relief the HIPC promises, the country must continue to establish a good record of IMF compliance, as well as carry out measures and meet goals agreed upon at the decision point. After a period of time, a state will reach the final step, the Completion Point, when lenders are expected to provide the full relief committed at the Decision Point.[29]

Of course, as groundbreaking as the HIPC initiative is, it is not without criticism. Much of the disapproval is due to misunderstandings regarding the purpose of the initiative. The HIPC initiative is not intended to be an all-encompassing solution to the problem of Third World debt. Instead, the HIPC is an effort to provide short-term debt relief, allowing countries to use all available resources to build infrastructure, strengthen fledging markets, and stabilize their economies instead of paying off debts and interest. Critics see the HIPC as a reward for states with questionable money management skills, ensuring debt relief for any state that spends itself into absolute poverty. However, critics fail to recognize the rigorous and highly interactive evaluation periods that are in place to prevent states from taking advantage of the program.

In order to quell some of the criticism against the HIPC initiative, the IMF and World Bank have worked together to develop the Multilateral Debt Relief Initiative (MDRI), an extension of the HIPC initiative. In June 2005, the G-8 nations proposed that the IMF, the International Development Association of the World Bank, and the African Development Fund cancel 100% of debts to HIPC nations that reached the final stage of the HIPC initiative. MDRI relief covers the full amount of debt owed to the IMF at the end of 2004 that remains unpaid at the time the country qualifies for such relief. There is no provision for relief of debt disbursed after 1 January 2005 or for reimbursement of

[29] *Ibid*

payments made after that date. The MDRI initiative was the impetus for the widespread debt cancellation in December 2005, when the IMF absolved the debts of twenty countries.[30]

Current Status

Extent of African Debt

In 2005, the G8 nations met at the Gleneagles Hotel in Scotland to discuss debt relief for African states. Representatives from Ethiopia, Algeria, Tanzania, South Africa, Nigeria, Ghana, and Senegal, as well as members of the African Union, World Bank, International Monetary Fund, and United Nations, were also present. At the Gleneagles conference, G8 nations committed to providing peacekeeping troops to prevent debt-causing conflict in Africa, to investing in health and education, and to bolstering African infrastructure and trade capacity to expand and develop businesses in Africa. G8 nations also cancelled one-hundred *per cent* of the multilateral debt of fourteen African states, including Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Senegal, Tanzania, Uganda, and Zambia. The total debt cancelled amounted to USD $40 billion.[31]

G-8 Nations
The Group of Eight, also known as the G8, consists of the seven strongest economies of the world, and Russia. Together their governments amount to 65% of the world's overall economy.

Source: Group of 8 (G8) Factsheet, Africa Action, http://www.africaaction.org/campaign_new/docs/G8Factsheet.pdf

While the G8's cancellation of African debt was an unprecedented and significant step towards debt sustainability, the term "one-hundred *per cent* of multilateral debt" can be misleading. Multilateral debt is only one type of debt African states have to repay.

External Debt:
The amount that a country owes to foreigners, including the debts of both the country's government and its private sector.

Internal Debt:
The amount owed by a country to, in effect, itself. It includes, for example, the portion of the government debt that is denominated in the country's own currency and held by domestic residents.

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[30] "The Multilateral Debt Relief Initiative," International Monetary Fund, http://www.imf.org/external/np/exr/facts/mdri.htm (accessed April 1, 2006)
[31] "Group of 8 (G8) Factsheet," Africa Action, http://www.africaaction.org/campaign_new/docs/G8Factsheet.pdf (accessed 27 September 2006)

Internal debt, caused by poor internal borrowing patterns and a lack of domestic debt management policies, is a significant contributor to African debt. External debt cancellation of any kind will not alleviate internal debt, at least not immediately.[32] Additionally, the G8 did not address bilateral debts, or those which are agreements between a debtor state and a lending state.

Impact of MDR and HIPC Initiatives

Since the implementation of the HIPC and MDR initiatives, substantial debt relief has been granted to the poorest African states; however, the IMF itself admits that, "on average, MDRI relief from the Fund had a limited impact on the overall debt ratios of qualifying members."[33] The relief reduced qualifying members' debt to the IMF by ninety-four *per cent* on average, and Ethiopia was left with no outstanding debt to the IMF immediately following delivery of MDRI relief.[34] As of April 2006, Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia had all graduated the HIPC program and MDR initiative. Burundi, Cameroon, Chad, Democratic Republic of Congo, the Gambia, Guinea, Guinea-Bissau, Malawi, Sao Tome & Principe, and Sierra Leone are still in the process of completing their HIPC goals. Central African Republic, Republic of Congo, Cote d'Ivoire, Liberia, Somalia, Sudan, and Togo have not yet begun the HIPC initiative.[35]

While the aforementioned statistics seem promising, a study conducted by the World Bank's Independent Evaluation Group (IEG) published in April 2006 found that countries which received debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative are again at risk of unsustainable debt as their problems were rooted

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[32] "Internal Mechanism," African Forum and Network on Debt and Development, http://www.afrodad.org/index.php?option=com_content&task=view&id=59&Itemid=54 (accessed 29 September 2006)
[33] "The Multilateral Debt Relief Initiative: Progress Report on Implementation," International Monetary Fund, 20 March 2006, p. 3
[34] I*bid*
[35] "The HIPC Initiative: Issues for Consideration," World Bank, April 2006, http://siteresources.worldbank.org/INTKYRGYZ/Resources/HIPC_eng.ppt (accessed 1 October 2006)

> **Debt Ratio:**
> The amount of debt owed divided by the GDP of a state. The debt ratio will decrease as economic productivity increases, or as debts are paid off or forgiven.

deeper than in just servicing their existing debts. According to the IEG study, the HIPC Initiative has reduced debt ratios by half, on average, in eighteen countries. However, out of thirteen countries that have data available, in eleven countries the key indicator of external debt sustainability has deteriorated significantly. Eight of the eleven countries have debt ratios that exceed HIPC thresholds. All states that completed the HIPC initiative are "vulnerable to export shocks, and require highly concessional financing and prudent debt management."[36] The study also suggests that HIPC countries need assistance in analyzing the impact of additional loans on long-term debt sustainability. The IEG observed that there is currently no systematic program by which the Bank assists low-income countries in building the needed capacity for debt management. That is to say, while the international community agreed to forgive significant sums of multilateral debt, it did not provide the economic advice or institutional support to ensure that these states would not simply return to their cycle of borrowing.

The IEG study went on to point out the benefits of the HIPC program when combined with the MDR initiative. One of these benefits was that HIPC encouraged other creditor participation, including private creditors like the Paris Club. The initiatives have also encouraged HIPCs to increase their social expenditures. When alleviating debt burden, HIPCs were encouraged to spend the funds typically used to pay off debt and interest on education, health, and other social expenses. The HIPC initiative has also become a mechanism for resource transfer into HIPC countries. The initiative's promise of debt relief after reformed economic practices influences other groups to invest in HIPC countries.[37] Despite these positives, the central point of the IEG's study remains:

> Debt reduction alone is not a sufficient instrument to affect the multiple drivers of debt sustainability. Sustained improvements in export diversification, fiscal management, the terms of

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[36] "Debt Relief for the Poorest: An Evaluation Update of the HIPC Initiative," World Bank Independent Evaluation Group, Washington DC: 2006, p 33
[37] *Ibid 34*

> new financing, and public debt management are needed, measures that are outside the ambit of the HIPC initiative.[38]

Without meaningful, structural adjustment, the long-term effects of this effort at debt reduction will have limited, if not even more destructive results than the initial debt burden carried by these states.

Other Proposals

The New Economics Foundation (NEF), a registered charity and independent think tank, views the MDRI as only for "the sufficiently poor and sufficiently indebted," bringing into question the appropriateness of the conditions that need to be fulfilled in order to qualify for debt relief.[39] The NEF sees the HIPC and MDRI as slow processes when urgent action is needed. Instead of the HIPC and MDRI, the NEF proposes a different solution, one that it believes abides by the Universal Declaration of Human Rights (UDHR). The NEF argues that "it is a violation of human rights if governments are forced to cut expenditure required to meet basic human needs in order to pay debt service."[40] The NEF's proposal is based on the amount of revenue that a government can be expected to generate without increasing poverty or jeopardizing basic human needs. This is significantly different from the traditional approach to debt cancellation, as it is geared towards protecting government spending needed to meet basic human development needs, while ensuring that maintaining spending does not result in an increase on marginal tax rates.

Universal Declaration of Human Rights
The Universal Declaration of Human Rights, adopted December 10, 1948, is the global standard of human rights guaranteed to all people.

To see the full text of the declaration, visit: http://www.un.org/Overview/rights.html

In order to do this, the NEF proposal adopts a *per capita* poverty level of USD $1,095 annual, a level arguably more realistic than that used by the World Bank. Based on this calculation, and using data from 136 countries, the NEF has calculated which

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[38] *Ibid 33*
[39] "Debt Relief as if People Mattered: A Rights-Based Approach to Debt Sustainability," New Economics Foundation, 2006, 10
[40] *Ibid*., 12

countries will require one-hundred *per cent* cancellation of their debts and which will need only some debt relief to reduce their debt to a sustainable level. The results show that of the 136 countries surveyed, between 51 and 54 needed complete cancellation of their debts and between 32 and 53 needed partial cancellations based upon humanitarian needs. The NEF's analysis suggests that between USD $424 and $589 billion in debt needs to be forgiven, and primarily to African states.[41]

ECA's Findings on Debt Sustainability

In May 1999, the ECA convened a joint conference among African Ministers of Finance and Ministers of Economic Development and Planning. The aim of the conference was to determine the key challenges of financing African development for the next millennium. Among the many issues at hand was addressing high levels of external debt service burdens for many African nations, especially in light of the competing demand for aid from other regions combined with budgetary constraints of donor countries.[42] A central goal of the conference was to contribute to the formation of national policies and to lead collective regional and sub-regional plans towards agreed objectives.[43] The conference agreed that "on average, aid has not been as effective as is desirable, and continuous aid may have nurtured a culture of aid dependency."[44] Effective aid was determined to be that which "enables key public investment programmes in infrastructure and human resources to be carried out in a non-inflationary manner, which lowers operational costs and improves the efficiency of private investment." The conference further stated that "aid is most effective in a good

[41] *Ibid.*, 14-16
[42] "Ministers to Address Challenges of Financing African Development—Expected to Forge Common Position on Debt," Economic Commission of Africa, May 2006, http://www.uneca.org/eca_resources/major_eca_websites/joint/p74.htm (accessed 2 October 2006)
[43] *ibid*
[44] "Executive Summary," The Joint Conference of African Ministers of Finance and Ministers of Finance and Ministers of Economic Development and Planning, Economic Commission for Africa, 6-8 May 1999, http://www.uneca.org/eca_resources/Major_ECA_Websites/joint/execsum.htm (accessed 2 October 2006)

macroeconomic policy environment and is ineffective or even harmful in poor policy environments," the latter being the current policy environment of Africa.[45]

Later that year, the ECA released a press release suggesting reforms to the HIPC initiative. A two-day conference devoted to an in-depth review of the HIPC initiative resulted in the following proposals:

- Debt relief must be firmly linked to a broader approach to long-term poverty reduction and economic growth. Strategically targeted debt relief must be an integral component of a country's poverty reduction policy strategy, not an end in itself.
- Establishing an effective, transparent linkage will be a complex and long term challenge, requiring development and implementation of a wide range of social, economic, financial and political reforms. Specific areas include improved budget management; development of a medium term expenditure framework; poverty-focused public spending priorities, with a clear view toward achieving the 2015 international poverty targets.
- To be successful, such reforms must be pursued with the broadest participation of civil society, including NGOs, community groups, the media and the private sector. Emphasis should be placed on improving parliamentary processes, strengthening the role of the media and local groups in monitoring implementation and the outcomes of policies, and drawing clear lines of accountability.
- Creditors, particularly the international financial institutions, must avoid excessive conditionality. Performance criteria should reflect a balance between sound macroeconomic policies and structural reform joined with social and institutional strengthening, working together to reduce poverty. Donors should seek to coordinate their assistance in the context of poverty reduction action plans.
- Governments and International Organizations can learn much from the success and failure of other country experiences. Many countries have developed programmes designed to channel debt relief directly into poverty reduction programmes integrated within the budget, often in the education and health sectors. Many representatives suggested that the success of these programmes could be complemented by programmes that direct funds to employment-generating initiatives such as micro-credit programmes and private sector development.
- Participants welcomed the frank and informative dialogue, and hoped it could be continued.[46]

Certain aspects of these proposals were incorporated into the Enhanced HIPC initiative, but these suggestions are important because they provide a framework for improvements that can be made internally through regional and bilateral cooperation.

In November 2003, an expert group meeting organized by the ECA and the Republic of Senegal convened in Dakar, brought together seventy financial experts from a number of prominent entities such as the African Union, World Bank, International

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[45] *Ibid*

[46] "Debt Relief Must Focus on Poverty Reduction, Institutional Reform, and Transparency," Economic Commission for Africa, 1999, http://www.uneca.org/eca_resources/press_releases/1999_pressreleases/pressrelese8399.htm (accessed 2 October 2006)

Monetary Fund, and national governments. While the group noted that debt relief is crucial in helping African states achieve the Millennium Development Goals (MDGs), which if achieved will prove instrumental to debt reconciliation, the group also agreed unanimously that debt relief on its own will be "woefully insufficient to allow African countries to finance the MDGs."[47] The findings acknowledged the benefits of the HIPC initiative to some states, but also pointed to the many African states like Kenya or Nigeria, crucial to the continent's development that have been ignored by the HIPC initiative because they are less in debt or have higher median incomes.[48]

In April 2004, the ECA held a follow-up, stressing the need for borrowing programs tailored to specific countries rather than trying to apply one program to a multitude of nations, as well as the importance of the balance between grants and loans. Experts emphasized that money given to nations beyond the states' sustainable debt-serving capacity should be in the form of non-repayable grants, not loans that are likely to foster even greater debt in the future.[49] The conference also addressed market failures, a major reason why many African states cannot escape the debt trap. Because of poor governmental management of money and lack of transparency in this process, many African states have weak markets that are easily susceptible to external shocks, like financial crises in other areas of the world. An important proposal made during the conference was the creation of a central institution, such as a marketing board, which could enforce contracts and provide transparent information to market participants as a way for avoiding market failures. Another issue addressed by the conference was odious debt, and what could be done to avoid such a practice in the future. Experts proposed the establishment of an *ad hoc* task force to review what is required for the establishment of

Market Failure:
The failure of an unregulated market to achieve an efficient allocation of resources.

[47] "Experts Group Meeting in Senegal Concludes that Africa's External Debt Problem Be Put In Wider Context of Financing Development," Economic Commission of Africa, 2003, http://www.uneca.org/eca_resources/Press_Releases/2003_pressreleases/pressrelease2103.htm (accessed 2 October 2006)
[48] *Ibid*
[49] "Solving Africa's External Debt Problem to Finance Development: A Progress Report," Economic Commission for Africa, 28 April 2004, http://www.uneca.org/cfm/2004/solving_africa.htm (accessed 7 October 2006)

an institution that would identify odious regimes in Africa. This institution would analyze governance in Africa, and states that loaned money to formerly dictatorial regimes would be warned that they likely would not be repaid. Perhaps the most important findings of the conference concerned the lack of a consolidated African position on debt relief and the slow reaction of African states to global policy proposals that have vast economic effects on the continent. The conference recommended an *ad hoc* committee established by the ECA to "facilitate timely and competent African responses to emerging global policy proposals on debt relief."[50]

Key Positions

North Africa (Sudan, Egypt, Morocco, Mauritania)

While most Sub-Saharan, low income countries' debts are to official creditors like the International Monetary Fund or World Bank, some forty *per cent* of African middle-income countries, mainly North African, are subject to commercial debt.[51] Of the five ECA operational sub-regions, North Africa has the largest share of Africa's total debt at over one-third of the total in 1996.[52] At the same time, North Africa pays off its debt service in the most timely manner, accounting for over forty *per cent* of the total debt service payments by African states to creditors in 1996.

Generally, North Africa is considered the most prosperous African region. The GDP of Africa in 1999 was USD $551.6 billion, of which the seven countries of North Africa made up 40.4 *per cent*.[53] Much of this economic strength can be attributed to the oil deposits of North Africa in addition to the stronger links between North African and European and Middle Eastern markets. Even so, Mauritania, Morocco, and the Sudan are heavily indebted to creditors. The amount of debt is usually associated with sub-Saharan

[50] *Ibid*
[51] "ECA's Thirty-third session of the Commission/Twenty-fourth meeting of the Conference of Ministers/Seventh Conference of African Ministers of Finance," Economic Commission for Africa, 6-9 May 1999, http://www.uneca.org/eca_resources/major_eca_websites/joint/africa.htm
[52] *ibid*
[53] "A Survey of the African Economy," Sino-Africa Cooperation, http://www.chinaembassy.org.zw/eng/zt/zflt/t150401.htm (accessed 7 October 2006)

Africa, but at thirty *per cent* (1994-96), Morocco's ratio of total debt-service to export revenue is one of the highest in Africa.[54] In May 2000, Mauritania's external debt totaled USD $2.5 billion, a number three times its annual exports.[55] In June 2006, the IMF approved Mauritania's actions in carrying out HIPC conditionalities and agreed to cancel Mauritania's debt to the IMF, estimated at USD $830 million.[56] Despite the extent to which the debt was forgiven, Mauritania is still indebted to internal creditors, businesses, and other nations on a unilateral scale. The 2005 estimate of the Sudan's external debt totals USD $27.34 billion and is growing rapidly despite booming oil markets.[57]

North African states are among the most economically stable states in Africa, but that does not mean they are invulnerable to external debt. These states want the ECA to take a particular focus on non-multilateral debts, such as most commercial debts to internal creditors like businesses and investors. North African states must lead advances towards regional integration due to their economic predominance.

Central Africa (DR Congo, Gabon, Nigeria)

As mentioned earlier, both the Democratic Republic of Congo and Nigeria are concerned with odious debt. In the case of the Democratic Republic of Congo (DRC), much of its debt was accumulated during the Mobutu regime or as a result of the impoverished state in which he left the country upon his departure. Nigeria's government severely mismanages its money, wasting oil profits on superfluous purchases, nepotism, and unstable business transactions. Central African states, particularly the DRC and Nigeria want the ECA to take action and make a unified policy concerning odious debts. Both Gabon and Nigeria are classified as "middle-income" African states, despite each nation's internal income disparities and significant external and internal debt. This

[54] "ECA's Thirty-third session of the Commission/Twenty-fourth meeting of the Conference of Ministers/Seventh Conference of African Ministers of Finance"
[55] "Mauritania," CIA Factbook, https://www.cia.gov/cia/publications/factbook/geos/mr.html#Econ (accessed 7 October 2006)
[56] "IMF Agrees to Cancel Mauritania's Debt," Business in Africa Online, 23 June 2006, http://www.businessinafrica.net/news/west_africa/584180.htm (accessed 7 October 2006)
[57] "Sudan," CIA Factbook, https://www.cia.gov/cia/publications/factbook/geos/su.html (accessed October 8, 2006)

classification keeps Gabon and Nigeria from broad-scale debt relief programs like the HIPC and MDRI. Gabon and Nigeria would like to see the ECA develop a debt relief protocol that considers countries like Gabon and Nigeria, despite calculations which improperly assess these circumstances.

East Africa (Uganda, Ethiopia)

Ethiopia and Uganda are both heavily indebted nations that struggle with debt servicing payments. Both nations see debt cancellation as a positive measure. In Uganda, debt cancellation as a result of the HIPC initiative has allowed the government to hire teachers and build schools, resulting in the highest enrollment in Ugandan education history.[58] However, the impact of debt cancellation on debt sustainability is questionable. Even with HIPC debt relief and an additional USD $700 million in response to market shocks, Ethiopia will continue to pay five *per cent* of its government revenue, or USD $116 million, in debt service until the Millennium Development Goals deadline in 2015, and USD $217.9 million thereafter.[59] After HIPC debt relief for Uganda, the government is still paying fifteen *per cent* of its budget on servicing debt, only a fraction less than pre-HIPC debt levels.[60] Keith Muhakanizi, acting deputy secretary of Treasury in Uganda's Ministry of Finance, commented, "On the debt sustainability issue, [debt cancellation] hasn't worked."[61] As a result of their experiences, East African states want the ECA to address the causes of debt in the poorest African states rather than stress debt cancellation. While recognizing that debt cancellation is an important step towards debt sustainability, East African states also tend to believe that more focus is needed on developing a united policy towards ameliorating the causes of African debt.

[58] Orla Ryan, "Uganda Still Struggles to Pay Its Way," 20 February 2005, http://news.bbc.co.uk/2/hi/business/4245629.stm (accessed 9 October 2006)
[59] "After Long Delays, Ethiopia is Granted 'Topping Up'," Jubilee Research, http://www.jubileeresearch.org/news/ethiopia290404.htm (accessed 9 October 2006)
[60] Orla Ryan
[61] *Ibid*

West Africa (Ghana, Sierra Leone, the Gambia, Cote d'Ivoire, Togo, Benin)

Thirteen out of fifteen West African countries have been classified as Heavily Indebted Poor Countries.[62] Ghana, Sierra Leone, Benin, and the Gambia have all reached their HIPC completion points and have been guaranteed aid from the IMF and World Bank. *Cote D'Ivoire* has been divided by civil war since 2002, triggering a dramatic economic downturn. Some speculate the lack of debt servicing from *Cote d'Ivoire* has resulted from a redirection of resources towards military funding and weaponry purchases. As of 15 June 2006, *Cote d'Ivoire* owes the World Bank USD $310.3 million which is a relatively small proportion of its annual revenue.[63] Clearly, West African States are some of the most in need of international aid. Debt cancellation is crucial to the development of this region, although other measures must be taken to achieve debt sustainability and economic growth. West Africa wants the ECA to explore ways to increase economic growth in this area through regional integration, but at the same time these states consider debt cancellation a positive measure towards sustainability.

[62] "Why HIPC Debt Relief is Inadequate and What to Do About It," Interaction Library, http://www.interaction.org/library/detail.php?id=2080 (accessed 9 October 2006)
[63] "Ivory Coast Faces Worst Economic Crisis," BBC News, 20 June 2006, http://news.bbc.co.uk/2/hi/business/5097634.stm (accessed 9 October 2006)

Summary

Much of the international focus has been on debt cancellation measures of organizations like the International Monetary Fund and the World Bank. While most African states see debt cancellation as a step in the right direction, case study after case study of African states that have completed their HIPC requirements demonstrates that debt cancellation does not necessarily lead to debt sustainability.

The Economic Commission for Africa must promote economic growth by becoming more independent of external factors. In order to accomplish this, regional integration and cooperation across the continent must be a significant focus of the ECA's policy formation. At the same time, causes of debt need to be more adequately addressed through policy solutions. Widespread government mismanagement must be held to an Africa-wide standard of accountability. In order for this process to occur, ECA must create a uniform policy to hold such governments accountable. Internal and commercial debts are forms of debt that are largely ignored by the global community, and the ECA must also draw attention to the importance of these kinds of debts.

Until African debt is reduced to a sustainable level, economic and social development will be severely limited. Debt sustainability is necessary for improving the condition of African states. At the same time, economic and social development are essential in achieving debt sustainability. The Economic Commission for Africa must work through this paradox to find policy solutions that all African states can agree upon, for it is far more possible for African states to rise above the ever-growing debt burden with regional unity and continent-wide cooperation.

Discussion Questions

- What is debt sustainability? What criteria are used to determine whether a debt is sustainable or not? What is the difference between debt sustainability and debt cancellation?

- How did colonialism impact Africa's trade and economic sustainability?

- How does the legacy of colonialism affect Africa's debt cycle today?

- What is odious debt? Why do critics of lending organizations argue for the cancellation of odious debt? What are some examples of odious debt?

- What are some causes of African debt today?

- Have past ECA actions concerning African debt been effective? Why or why not?

- What are the Millennium Development Goals? How do they factor into Africa's debt sustainability?

- Should higher priority be given to relieving the debt of highly impoverished African states, should states be considered equally for debt relief measures, or should wealthier states that economically support Africa be considered first? Why?

- What are the HIPC and MDR initiatives? What are the positive aspects of these initiatives? What are the downsides?

- Is complete debt cancellation the solution to the debt crisis in Africa? How has debt cancellation through HIPC and MDRI affected the debt sustainability of African countries who received it?

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