

KAIROS Analysis of Debt Recommendations in Commission for Africa Report

The report of the Commission for Africa appointed by UK Prime Minister Tony Blair contains three major recommendations and a fourth set of “possible actions” pertaining to Sub-Saharan African countries’ external debts. Although its recommendations commence with a general call for “100 per cent debt cancellation as soon as possible”, the possible actions described in Annex 9 are closer to the actual proposals being debated by G7 Finance Ministers. These would provide only some additional **debt service relief** until 2015 while reinforcing IMF and World Bank conditionality for African countries.

The first recommendation for “100 per cent debt cancellation as soon as possible” has been widely cited by NGOs as a positive breakthrough and indeed it would be **if** it were ever implemented. However, there is no timeline attached to the “as soon as possible” and there are no details concerning which countries might have debts cancelled, which kinds of debt would be covered and how it could be achieved.

The second recommendation, for a “transparent debt compact to include all sub-Saharan low-income countries, including those excluded from current schemes ... [to] cancel debt stock and debt service by **up to** 100 per cent and cover multilateral and bilateral debt” is more concrete. But it backs away from the universal promise of the first recommendation as it would only involve “low-income countries” and “**up to** 100 per cent” debt cancellation. Here too there is no timeline or details concerning how a compact might be negotiated and how debt cancellation might be financed. (Paragraph #122 says the debt relief compact has not been costed.) What is significant about this proposal is that it would also apply to non-HIPC low-income countries, including Nigeria and six other Sub-Saharan countries. (see column 4 in the Table below)

The third recommendation – “As an urgent measure, financing should immediately be put in place to provide 100 per cent **multilateral debt service** cancellation, where it is necessary to achieve the MDGs (Millennium Development Goals)” builds on proposals already on the table at the G7 Finance Ministers’ meetings. It implies both more immediate actions and a more restricted scope as it would apply only to “**multilateral debt service**”; only be available to countries needing more debt relief to achieve the MDGs and only last until 2015 “to avoid the risk of new loans being taken with the expectation that they subsequently will be written off.” [The latter risk could be avoided by setting a cut-off date for eligible loans without any need to limit debt service cancellation for pre-cut-off date debt to the year 2015.]

It is only in Annex 9’s discussion of “Possible Actions for Further Debt Relief” that a clearer picture emerges of what is being put on the table for imminent decisions. Here one can discern an expanded version of the debt relief plan UK Chancellor Gordon Brown has tabled with G7 Finance Ministers. (These Ministers have not yet agreed to the Brown plan although Canada’s Ralph Goodale, who was also a member of the Commission for Africa, has tabled a slightly less generous version of Brown’s proposal.)

The essence of the Brown plan is captured in Annex 9's Action 1, point 1 (c) calling for "cancellation of 100 per cent [of the debt] service falling due from [Heavily Indebted Poor Countries] that have passed their HIPC completion point [until] 2015." Only 12 SSA countries (see Column 1 in the Table below) have passed their HIPC completion point so far. The Brown plan is only to pay their multilateral debt service up until 2015, not to cancel their debts. It is estimated that between 60% and 70% of these countries' multilateral debt stocks will still remain after 2015 when full debt servicing would have to resume.

Annex 9's Possible Action 1 appears to go beyond the Brown plan in three respects:

- First it appears to cover all debt service due and not just multilateral debt service.
- Point 1 (b) would apply to countries between their HIPC decision and completion points (see column 2 in Table) and pay 100% of the debt service owed by these countries until 2015. This would effectively give these countries the same treatment as completion point countries would get under the Brown plan.
- Point 1 (a) would apply to HIPCs that have not yet reached their decision point (see column 3 in Table) These countries would still have to make debt service payments but, instead of going to creditors, payments due up until 2015 would be put into a trust account for each country. The country would receive back the proceeds of that account **when** it reaches its HIPC decision point "in order to kick-start MDG-related spending". Thus there would be no additional funds for spending on the MDGs until the country qualified for HIPC's decision point.

(Presumably donors would compensate multilateral creditors [and private creditors?] for the equivalent of the debt service owed by each country up until 2015.)

It is important to note that far from freeing these countries from IMF and World Bank conditionality, these proposals would reinforce it by dangling the carrot of having some debt service payments paid or rebated if the countries adhere to IFI conditionality long enough to meet all the requirements of the HIPC process.

Annex 9's Possible Action 1 Point 2 has a similar logic to point 1 (a) just discussed. This proposal would apply to non-HIPCs, although it is not clear if this just means low-income countries like Nigeria or also includes middle income countries like South Africa (see Table columns 4 and 5). Under this proposal "funds" (presumably their own debt service payments) would also be "put into trust until such time as they establish a track record of design and implementation of interim Poverty Reduction Strategies equivalent to that of HIPCs." In this case it is **unclear when** the proceeds of the trust funds would be paid out but presumably it would occur before 2015 but after countries pass some threshold of demonstrated adherence to IFI conditions. The authors of this proposal are clearly preoccupied with the need to discipline these countries if they fall off track with implementation of IMF conditionalities under the guise of Poverty Reduction Strategies and hence they add a sentence saying "Moral hazard of countries falling off track while

receiving relief would be avoided by the fact that the countries would have aid and IMF programmes suspended.”

The most revealing section of Annex 9 Action 1 is point 3 which states **“the option to cancel 100 per cent debt service is preferable to 100 per cent up-front stock cancellation”**. This statement is puzzling since 100 per cent debt cancellation would remove both the liquidity problem and the debt overhang. It only makes sense if debt cancellation is partial, as would be the case if debt service payments were only covered until 2015.

The Annex argues that debt service cancellation is preferable to debt stock cancellation because **“it is the most cost-effective use of funds in the context of limited resources.”** The premise of this objection is that there will not be sufficient resources available to both cancel 100% of the debt and provide enough additional development assistance to meet the MDGs.

Indeed if the full cost of debt cancellation had to be paid immediately out of Official Development Assistance budgets there would be a danger of debt relief crowding out other ODA. However, there is no inherent reason why 100% debt cancellation must be fully financed immediately and up front from ODA budgets. The options of using revenue from IMF gold sales and from World Bank retained earnings and loan loss reserves are viable alternatives.

Annex 9 itself points out that some of the debt service “does not fall due for more than 10 years” and therefore need not be paid off immediately. A precedent was set by the way the Paris Club of creditors agreed in November of 2004 to handle the write off of Iraqi debt. Paris Club members were given the option of writing off a portion of Iraqi debt stock over a period of 23 years or of reducing debt service over a period of 33 years. The point here is not the exact time frame but the precedent allowing creditors to pay for debt cancellation over a period of several years without having to pay out the entire cost at the time when debt cancellation is decreed. Any such long-term option would have to be enshrined in a legally binding commitment to prevent creditors from reneging on their promises.

Annex 9’s Possible Action 2 is aimed at enabling debts owed by HIPC’s to “other debt distressed developing countries” through a special trust fund and at dealing with “disreputable speculators” (vulture funds) who buy up debts and then sue governments for payments. The “rapid response legal technical assistance facility” to help pre-empt lawsuits sounds reasonable to a non-lawyer who cannot assess what it might actually mean in practice.

HIPC Criticized but Not Abandoned

The report contains several cogent criticisms of the HIPC initiative:

- “some of the debt written off under HIPC could not have been repaid. ... This merely relieves the creditor of a balance sheet fantasy, and does not free up any actual resources for Africa”
- HIPC language re: sustainability “suggests an accounting clean-up on the balance sheet.” “The ‘sustainable debt’ levels ... were not derived from convincing economic analysis.” (#111 p.319)
- “Debt sustainability calculation ... often ... based on over-optimistic projections ... have the objective of managing debt and improving repayment probabilities rather than making room for development.” (p. 363)

Yet instead of actually recommending the dismantling of HIPC, Annex 9 seems more preoccupied with using HIPC to enforce conditionality, although one can interpret the call for a new debt compact as a plan to replace the HIPC Initiative.

Core Macro-Economic Conditionality Not Questioned

The report makes several criticisms of IFI conditionality as it recommends “reducing conditionality and enhancing country ownership”:

- “The World Bank should provide assistance on the basis of two key prerequisites – whether the recipient has a track record or demonstrable commitment to development, and whether it is sufficiently accountable to its people in the use of aid and of resources more generally.” (p.363)
- “In dealing with aid flows the IMF has tended to require that the projects financed by aid be counted on the expenditure side of the ledger, where it would add a deficit, but has been reluctant to count aid as government revenue, to offset any deficit. ... [We] recommend that the IMF ... allow both the aid itself and the aid-financed expenditures to appear ‘above the line.’”
- “The IMF should treat current and capital expenditures differently; capital expenditures are an investment that should yield future payoffs.”
- “The IMF should adjust its permitted deficit limits for shocks and business-cycle effects.” (p.366)

As welcome as these reforms might be they hardly constitute recommendations for a total revamp of IFI conditionality. They do not even go as far as a recent paper from the UK’s Department for International Development (*Partnerships for poverty reduction: rethinking conditionality* March 2005) questioning conditionality in such areas as privatization and trade liberalization.

Neither the DFID report nor the Commission’s report gets to the heart of the matter by questioning IMF macroeconomic policies – particularly its rigid monetarism - or the neo-liberal model which cause poverty and inequality. As Third World Network-Africa co-ordinator Yao Graham, writes in The Guardian (12/03/05): “The report picks no holes in the biggest policy condition of all – the monoculture of a single development model rooted in neoliberal economics. Its suitability for all is taken for granted, as is the intrinsic good of market forces and trade liberalisation that runs through it. This is policy autonomy within a single free-market paradigm.”

Illegitimate and Odious Debt Not Recognized

The report refers to “strong resentment in many parts of Africa over ... debt obligations ... incurred by unelected leaders supported by the very countries [now collecting debt] service and who, many Africans feel are now using debt as a lever to dictate policy to the continent. There is a widespread feeling that the debts are unreasonable and that what was owed has in practice already been paid many times over.”

Yet there is no discussion of how many debts were illegitimate from the very beginning. Nor is there a discussion of writing off “odious debts” even in the discussion of stolen assets (section 4.5.3) where it is acknowledged that these stolen assets are equivalent to half the continent’s external debts. Nor is there any mention of apartheid debts.

Numbers Cited at Variance with Sources Cited

The numbers in the report do not always correspond to the numbers in the sources cited. Table 9.5 on page 319 purports to be drawn from the 2004 World Bank Global Development Finance report yet the numbers it cites are consistently smaller than the numbers in the actual World Bank document. It appears the Commission is limiting its recommendations to public debt only as paragraph 114 refers to “total (public) debt service”. Still the World Bank’s number for total SSA debt service in 2003 on public and publicly guaranteed long-term debt was US\$9.8 billion and not the US\$8.6 billion cited in the Commission report. The same table says the debt service owed to multilateral institutions was US\$2 billion in 2003 whereas the World Bank table says US\$2.7 billion. Perhaps the publicly guaranteed portion of debt service as well as the private non-guaranteed portion was also subtracted from the total debt service owed?

47 Sub-Saharan African Countries by HIPC and Income Status

39 low-income				8 middle-income
Column 1	Column 2	Column 3	Column 4	Column 5
12 HIPCs past completion point	11 HIPCs between decision and completion points	9 HIPCs still to be considered	7 other low-income	8 middle-income
Benin	Cameroon	Cote d'Ivoire	Angola	Botswana
Burkina Faso	Chad	Burundi	Equatorial Guinea	Cape Verde
Ethiopia	Dem. Rep. of the Congo	Central African Republic	Eritrea	Gabon
Ghana	The Gambia	Comoros	Kenya	Mauritius
Madagascar	Guinea	Congo, Rep. of	Lesotho	Namibia
Mali	Guinea-Bissau	Liberia	Nigeria	Seychelles
Mauritania	Malawi	Somalia	Zimbabwe	South Africa
Mozambique	Rwanda	Sudan		Swaziland
Niger	Sao Tome and Principe	Togo		
Senegal	Sierra Leone			
Tanzania	Zambia			
Uganda				

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