



AFRICA-EUROPE FAITH AND JUSTICE NETWORK¹ RESEAU FOI ET JUSTICE AFRIQUE-EUROPE

Rue Joseph II, 174
B-1000 Bruxelles - Belgique
Tel. +32- (02) 234 68 10 fax +32-(0)2 231 1413
aefjn@aefjn.org www.aefjn.org

Africa's Debt Sustainability and the Millennium Development Goals

Briefing prepared for the ACP-EU Joint Parliamentary Assembly
Den Haag, 20-25 November 2004

Summary

Currently 38 countries are eligible for debt relief under the Highly Indebted Poor Countries Initiative (HIPC).² Of these, 31 are Sub-Saharan African countries. Both official and civil society evaluations³ of the IMF and World Bank's HIPC initiative point out that, while external debt stocks have reduced for countries such as Benin, Burkina Faso, Ethiopia, Mali, Mauritania, Mozambique, Niger, Senegal, Tanzania and Uganda, the initiative does not guarantee long-term external debt sustainability.

Several African countries are currently in danger of slipping back into over-indebtedness! These countries continue to face the dilemma having to give priority over maintaining long-term debt sustainability to financing for development. Highly indebted countries require continued structural reforms and timely donor support. Debt and grant financing must be closely monitored by both borrowers and creditors to ensure that the potentially large financing needs associated with meeting the Millennium Development Goals do not give rise to a renewed excessive build-up of debt.⁴

In the context of the current ACP-EU negotiations of regional Economic Partnership Agreements (EPA), debt sustainability for Highly Indebted Poor Countries in Africa is paramount, if regional economic integration is to succeed in bringing about economic growth and poverty reduction for the most vulnerable economies in Africa.

AEFJN, and a collective of European Debt Campaigns⁵, call on the members of the ACP-EU Joint Parliamentary Assembly to build on opportunities provided by the European Union's Barcelona Commitments⁶ and recommendations made in European parliamentary resolutions⁷ in order to:

- Advocate a human development approach for sustainable debt level calculation;
- Stress the urgent need for cancellation of all unpayable debt;
- To ensure that all debt relief is additional to current aid flows and does not reduce available resources for development co-operation;

¹ The *Africa-Europe Faith and Justice Network (AEFJN)* is an international network of 44 Catholic Religious Institutes in Europe and Africa, working for equitable economic relations between Africa and the EU.

² For information on the HIPC see <http://www.worldbank.org/hipc/about/hipcbr/hipcbr.htm>

³ *Beyond the HIPC Initiative*, Investment Development Consultancy, for the European Commission, March 2004: http://europa.eu.int/comm/development/body/theme/hipc/index_en.htm and *Real HIPC Progress Report*, Jubilee Research, London September 2003 <http://www.jubilee2000uk.org/analysis/reports/realprogressHIPC.pdf>

⁴ External Debt Sustainability in HIPC Completion Point Countries, Yan Sun, IMF Working Paper WP/04/160, 09 2004

⁵ EURODAD (www.eurodad.org) Jubilee Nederland (www.jubileenderland.nl), Jubilee Debt Campaign UK (www.jubileedebtcampaign.org.uk/), Debt and Coalition Development Ireland (www.debtireland.org) and Action Solidarité Tiers-Monde (ASTM) Luxembourg (www.astm.lu).

⁶ The European Council Meeting of March 14th 2002 in Barcelona made eight commitments as part of the process leading to the UN International Conference on Financing for Development. This includes a commitment by the EU to actively pursue policies to restore the sustainability of low-income countries' debt and ensure "that developing countries, and especially the poorest ones, can pursue growth and development unconstrained by unsustainable debt dynamics."

⁷ The European Parliament has passed several resolutions on the subject of debt. The most recent the one on HIPC debt alleviation contained in report A5-0075/2002 of 25 April 2002: "European Parliament resolution on the Commission communication COM(2001) 210 – C5-0394/2001 – 2001/2158(COS)", concerning the proposal for a Council decision on the adoption of the position of the Community within the ACP-EC Council of Ministers regarding the settlement of all ACP HIPC LDCs' special loans remaining after full application of HIPC debt alleviation mechanisms.

- To advocate for a Fair and Transparent Debt Arbitration Process.

1. HIPC fails to assure sustainable debt levels for African countries

For several years civil society groups have expressed the fear that the Highly Indebted Poor Country (HIPC) initiative would not deliver sustainable debt levels. Recently the International Financial Institutions (IFIs) have admitted that this is may indeed be the case.⁸

Some reasons why the HIPC initiative risks promising outcomes that it cannot deliver are:

- The HIPC implementation has been agonisingly slow. Countries are being delayed in the HIPC initiative by conditionalities (e.g. overly stringent fiscal criteria and requirements to privatise large parts of their economy) that are not relevant to debt relief.
- The HIPC programme has a creditor-friendly approach, not a pro-development approach. The initiative uses mainly the total yearly export earnings of a HIPC country as a basis to calculate the debt sustainability level of that country! If a HIPC would be allowed to first set aside from its export earnings the funds needed for programmes intended to meet the Millennium Development Goals, then the amount of its export earnings left to calculate the debt sustainability level would be much smaller. In this case the great majority of countries that have now gone through the HIPC process would not reach the debt sustainability level.
- Debt sustainability of a HIPC country is calculated on the basis of its total yearly export earnings (sustainable debt level is considered 150% debt-to-exports ratio); falling commodity prices on the world market result in less revenue from export for HIPC countries and thus influence levels of debt cancellation.
- Recently the World Bank has proposed to assess debt sustainability level in low-income countries, using the Country Policy and Institutional Assessment (CPIA).⁹ CPIA intends to serve as an analytical tool to prevent the build-up, within low-income countries, of new unpayable debts. The proposal is that countries that demonstrate “good policies and institutions” according to the CPIA rating, could sustain levels of debt up to a 300% debt-to-exports ratio. In the initial HIPC initiative the debt-to-exports ratio used to determine the sustainable debt level is 150%!
We are concerned that if the IFI’s use of the CPIA-based operational framework, this will encourage significantly increased levels of lending to, and borrowing by poor countries. Moreover, the World Bank may not have a strong incentive to rate governments accurately because the Bank is rating the influence of its own operations and policy advice on each government. The World Bank also has a conflict of interest insofar as it profits from increased lending to governments with high CPIA scores and may pay little attention to the resources countries will need if they are to have any hope at all of achieving the MDGs.
- Contrary to the terms of the HIPC initiative, commercial and non-Paris Club bilateral creditors massively lack behind in living up to their promises to cancel their share of debt. Worse, some continue to sue HIPCs for defaulting debt repayments, debts that should have been cancelled!

Action Call

AEFJN urges the members of the ACP-EU Parliamentary Assembly to remind our governments that, in the context of the negotiations of regional Economic Partnership Agreements (EPA), debt sustainability for Highly Indebted Poor Countries in Africa is paramount, if regional economic integration is to succeed in bringing about economic growth and poverty reduction for the most vulnerable economies in Africa.

⁸ *Real Progress Report on HIPC*, The New Economics Foundation – Jubilee Research, London, September 2003

⁹ *Debt Sustainability in Low-Income Countries: Proposals for an Operational Framework and Policy Implications*, World Bank and IMF, February 2004:
<http://siteresources.worldbank.org/INTDEBTDEPT/PublicationsAndReports/20261908/debtSust-complete%20paper.pdf>

2. Towards a Millennium Development Goal approach to debt sustainability

At the 2002 Monterrey Summit on Financing for Sustainable Development, the international community committed itself to linking debt sustainability analysis to the funding required to achieve the MDGs. Because of their continued levels of debt, it is almost certain that low-income countries will fail to meet the MDGs by 2015.

Based on an analysis of the Poverty Reduction Strategy Paper, we can determine the amount of debt cancellation needed. According to preliminary calculations, many HIPC countries will require a total cancellation as well as further aid flows if their revenues are to meet the objective for financing the MDGs.¹⁰

Action Call

AEFJN urges the members of the ACP-EU Joint Parliamentary Assembly to demand from their governments to defend that regional economic integration in Africa requires:

- To break with the principle of prioritising debt servicing over the providing means to meet basic needs of people.¹¹
- To accept a Millennium Development Goal approach to debt sustainability in order to provide finances needed for implementing poverty reduction strategies.

3. Need for cancellation of unpayable debt

Since the Jubilee 2000 Campaign, AEFJN has consistently called for the cancellation of unpayable debt. Since the G8 Summit of Cologne in 2000, many EU countries have promised to cancel total bilateral HIPC debt, leaving the International Financial Institutions as the main HIPC creditors. Hence the responsibility of the World Bank, the IMF and their shareholder-governments, for protracting the situation of over indebtedness of many African countries.

Action Call

AEFJN urges the members of the ACP-EU Joint Parliamentary Assembly to demand from their governments that:

- A greater multilateral commitment towards debt cancellation for poor countries, including the need for full cancellation of unpayable debts owed to the IMF and World Bank.
- This cancellation must be without conditions for privatisation and further trade liberalisation.

4. Fair Financing for needed for debt cancellation

Any resources required to achieve such a cancellation should result in additional, positive and sustained net financial flows to these countries.

In relation to EU Member States bilateral commitments to debt cancellation, the 'Monterrey Consensus' 2002 states that: "we encourage donor countries to take steps to ensure that resources provided for debt relief do not detract from ODA resources intended to be available for developing countries"¹².

¹⁰ *Real HIPC Progress Report*, Jubilee Research by Romilly Greenhill and Elena Sista, September 2003

¹¹ "Debt and the Millennium Development Goals. A new deal for low-income countries: financing development through debt cancellation and aid", London, 2003, a working paper by CAFOD, Christian Aid & Eurodad (supported by Oxfam GB, Jubilee Research, Jubilee Debt Campaign, CIDSE & Caritas Internationalis),

¹² Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002

European Union Member States have a particularly poor record in real debt cancellation for poor countries! The European Commission’s recent study “Beyond the HIPC Initiative”¹³ states that “additional debt relief provided by EU Member States has so far been weak”. According to the study, debt relief “is normally taken from the general pool of resources available for overseas development aid”. Worse, EU bilateral donors have been able to “maintain or even increase their level of ODA/GNI (gross national income) by simultaneously granting debt relief and reducing the volume of ODA in the form of fresh loans or grants.”

As for the multilateral unpayable debts owed to the IMF and the World Bank, we believe that a viable option to finance additional debt cancellation for multilateral debts owed to the IMF and World Bank could be financed by sales from their gold reserves.¹⁴

Action Call

AEFJN urges the members of the ACP-EU Parliamentary Assembly to seek a firm commitment from the European Union Commission and its Member States, that:

- The resources to achieve needed debt cancellation for African countries should not be drawn from the funds required for meeting existing targets for Overseas Development Aid.
- Cancellation of multilateral debt be financed by sales of the IMF and World Bank’s gold reserves.

5. A Fair and Transparent Arbitration Process to prevent over-indebtedness

Debt cancellation is only one step towards achieving social and economic justice for the world’s most impoverished nations. A fair and transparent international insolvency process should be created to allow both creditor and debtor countries to resolve debt crises without compromising the ability of poor countries to meet the most basic human needs of their peoples, and without forcing poor countries to repay what the insolvency process determines to be odious debts.

Action Call

AEFJN urges the members of the ACP-EU Parliamentary Assembly to demand their parliaments, governments and the European Commission to support the creation of a Fair and Transparent Arbitration Process framework to prevent a reoccurrence of over-indebtedness of African countries and in order to definitively break the cycle of poverty, indebtedness and desperation of millions of people in Africa.

¹³ *Beyond the HIPC Initiative*, Investment Development Consultancy, France for the European Commission, March 2004: http://europa.eu.int/comm/development/body/theme/hipc/index_en.htm

¹⁴ A recent paper by Sony Kapoor, Jubilee Research UK argues very convincingly for the sale of IMF gold reserves as a “strong and viable option” to secure the cancellation of multilateral debts using additional resources. One possibility to ensure the “sensible” sale of gold is to revise the Central Bank Gold Agreement and limit central bank gold sales to 11 million ounces per year and allow the IMF to sell 5 million ounces per year. See: “*The IMF, Gold Sales and Multilateral Debt Cancellation*”, September 2004, www.debfireland.org