SPECIAL REPORT

Debt cancellation
some way off

The issue of debt and its impact on African economies remains one of the major challenges facing international development financing and the continent's development. **Wole Olaleye** analyses what Africa received in terms of debt relief and argues that whilst it should be welcomed it does not go far enough.

Africa is rich in human and natural resources, yet it is economically the poorest region in the world. The number of people living in extreme poverty continues to rise and is expected to increase from 315 million to 404 million people by 2015. There are those who argue that the dire situation of poverty and under-development highlights the impossibility of African countries to generate sufficient resources to sustain crumbling economies. This is exacerbated by the obligation to pay back foreign debt, which absorbs much of government revenue and export earnings.

Debt campaigners across the globe and in Africa have long argued that Africa's debt should be understood within an historical context that gave rise to illegitimate loans and lack of financial discipline on the part of the creditors. It is this that provides the underlying reason for 100% debt cancellation. As of 2002, developing countries owed $523-billion to the developed nations while sub-Saharan Africa owed between $220-billion and $500-billion.

African countries became indebted to international lenders immediately after independence from colonialism in the 1960s and 1970s. They accepted loans for political and economic stabilisation in the post-independence era. In the context of the Cold War, and with massive revenue surpluses of oil money in western banks in the 1970s, loans were made with little thought to their purpose or to their recipients' capacity to repay the debt. Many were made to retain the loyalty of corrupt regimes, and much of the money went into the hands of unrepresentative and repressive governments.

The period leading up to the G8 Summit saw increased global activism in an attempt to put popular pressure on eight of the world's richest and powerful nations to cancel Africa's debt to multilateral and bilateral institutions. The summit fell short of developing countries' expectations when it merely re-affirmed existing decisions on debt cancellation agreed to by the G8 finance minister's weeks before the summit in France. The debt relief package includes a $40-billion write-off over the next 40 years. A further nine countries are likely to be included in the plan over the next two years bringing the total to $55-billion. The G8 further agreed to cancel 100% of outstanding debts of eligible HIPC to the IMF, International Development Assistance and African Development Fund and to provide additional resources to ensure that the financing capacity of the international financial institutions is not reduced.

This re-affirmation is a clear illustration from the G8 that if Africa and other developing countries are to rid themselves of poverty, they should not look to the North for a solution. It is now time for Africa to start finding its own solutions instead of putting all its egg in the North's basket.

The deal emerging from the G8, in its current form, lacks any urgency around critical development challenges facing developing countries and Africa in particular.

- Firstly, nothing in the promise made at Gleneagles really acknowledges the failed economic prescription of the IMF and WB in contributing to debt accumulation and the need to adopt a developmental orientated economic framework, which would put the plight of the people at the centre of its policy. The G8 proposal continues to require poor countries to implement risky and unproven economic policy conditions, such as privatisation, trade liberalisation and fiscal austerity, in order to access debt relief. Countries that fail to stay 'on-track' with their IMF programmes, or do not negotiate conditionality-heavy adjustment programmes with the World Bank, will not be eligible for relief. Conditions attached to debt relief through HIPC include cutting budget deficits, privatising water, and liberalising trade.
- Secondly, the debt package only promises to provide 10% of the relief required and only one third of the countries (18 out of 62) need 100% debt cancellation. This translates into $1-billion across 18 countries per annum for those, which fall within the HIPC initiative. The objective of HIPC – to reduce debt to 'sustainable levels', remove debt overhang, and ensure that debt service owed is the amount being paid, thus preventing countries from falling behind on their repayments – has not been effective. Countries like Uganda, Malawi, Mozambique, Tanzania and Burkina Faso, who graduated from the HIPC initiative, and Zambia, who has reached completion point, continue to wallow under severe poverty and famine.
- Thirdly, debt relief will continue to be funded from within existing aid budgets, which have stringent conditionalities. The section headline 'G8 proposals for HIPC debt cancellation', says that debt relief will be granted to poor countries only if they are shown to be 'adjusting their gross assistance flows by the amount given'. This means that aid will be reduced by the same amount as the debt relief. At the end of the day, these countries would gain nothing.

The debt service paid by all sub-Saharan African countries in 2003, according to WB figures, amounted to $8.6-billion. Of this, $2.4-billion was paid to bilateral lenders, $2-billion to multilateral lenders, and $4.2-billion to private sectors. These amounts include debt paid by low-income countries, which are not eligible for debt relief under the HIPC programme. These debt repayments divert money directly from promoting sustainable development and meeting basic needs such as health care and education, while undermining the fight against HIV/AIDS. The HIPC initiative is not freeing up actual resources for Africa. It is only relieving the creditors of a balance sheet fantasy.

African countries owe almost $300-billion in external debt or about 12% of total debt owed by all developing countries. As a result, the African continent continues to lag behind in development because the little revenue, which should be spent on development, is used in debt repayment. This is not about dramatising the state of play in Africa. A growing number of people all over the world are beginning to note the apparent positive correlation between debt levels and poverty. It is this realisation that has led people to believe that powerful global forces have found a new form of colonialism – debt. Debt is a powerful tool that the IMF, World Bank and regional development banks are using to arrest the development agenda on the continent. Debt creates and fosters uneven power relations between debtors and creditors; to the latter's advantage to control and manipulate the political, economic, social and cultural destinies of loan recipients.

Africa's demand for 100% debt cancellation is about global economic justice, upon which its future depends. Debt threatens the basic livelihood of the poor on the continent. The critical question creditors will have to answer: how much are they going to pay for their part in illegitimate debt accumulation in Africa?

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