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Third World Debt and Sustainable Development

- with a focus on the heavily indebted low-income countries of sub-Saharan Africa.

Bill Turner
Anvil Mining NL, 24 Outram Street, West Perth, Western Australia 6872

Abstract

Official and commercial debt burdens accumulated during the 1970s and early 1980s of some 50 Lesser Developed Countries had reached a total of approximately $350 billion by the late 1990s. These debts are currently still at levels relative to the earning capacities of these countries, that most will never be able to repay them. These 50 countries are referred to as Heavily Indebted Poor (Low-Income) Countries (HIPCs) and most of them are to be found in sub-Saharan Africa.

The initial response to the debt problem by the lending institutions led by the World Bank and bilateral creditors has been to reschedule debts and attempt to restructure economies to be better able to service these debts. This has met with limited success and in most cases postponed the inevitable. Subsequent action involved some write-offs of commercial and bilateral debt, but still the overall debt levels remain unacceptably high and continue to place enormous constraints on the capabilities of the HIPC debtor countries, particularly in funding their future economic and social development. External shocks and periodic weakening trade terms further exacerbate the situation. Such pressures invariably threaten fledgling democracies and in many cases have been a contributing factor to the outbreak of armed conflict.

Driven by the realisation that these countries are unable to repay the accumulated debt burdens by their actions alone, attempts have been made by the multilaterals and a number of creditor countries to provide debt relief and/or cancel a large portion of this debt, in order to reduce the debt burden to sustainable levels. These concepts have gathered momentum since the early 1990s by the actions of broadly based interest groups including the Non-government Organisations (NGOs), the Jubilee 2000 movement and religious groups culminating in a more coordinated approach through the establishment of the joint IMF-World Bank HIPC Initiative in 1996.

The magnitude of the debt problems for many HIPCs creates a unique opportunity for the multilateral organisations and Developed Countries to trade essentially un-repayable debt for peace, more democratic systems of government, more transparent and less corrupt forms of government, and effect significant economic restructuring for the better in the poorest countries of the World. Such change in time can only lessen the sense of dependency on the developed world, develop self-sustaining economies and eventually open up new and significant markets.

However, in order to have any real and long-lasting benefit, the alleviation of HIPC debt must be accompanied by other initiatives that will provide the opportunity for these countries to replace economic and political stagnation with economic revival and political development. A better coordinated approach that mirrors the coordination found in the IMF-WB HIPC Initiative and which harnesses the skills and strengths of all the stakeholders (Multilateral Institutions, HIPC creditors, HIPC governments, foreign investors and the financial institutions), releasing important synergies, might well provide a firm basis to achieve this.

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Introduction

The World Bank figure, in 1997, for the total debt for all developing countries was approximately $2,200 billion[♣]. It had risen quickly from a figure of $603 billion in 1980. Fifty-one of these developing countries are defined by the World Bank as low-income countries with a Gross National Product (GNP) of less than $765 per capita. These countries are referred to as the Heavily Indebted Poor Countries or HIPCs, and most of them are in sub-Saharan Africa. They have severely limited capacities to service such debt levels.

For at least 10 years, it has been obvious that debt levels for the HIPCs have been a significant contributing factor to their economic and political stagnation, and in some cases, their progressive demise. Debt servicing, to the extent that the HIPCs have attempted it, has been at the expense of education, health and other fundamental social services as well as threatening the stability of fledgling democracies and a contributing factor to the outbreak of conflict. The debt problem of the mid 1980s had, by the early 1990s, become a debt crisis of enormous proportions.

The increasing interdependence of the developed and the developing worlds places an obligation on the Developed Countries (DCs) to find a way to improve the human condition in Third World Countries, and ultimately to find ways to enhance their ability to achieve economic sustainability. Recent attempts to meet this obligation have been focussed through the multilateral institutions.

Third World Debt

Origins of the HIPC Debt Problem

Today's Third World debt problems had their origins in the oil crises of 1972 and 1977 when the Organisation of Petroleum Exporting Countries (OPEC) decided that their cartel had sufficient coherence and strength to challenge the world by dramatically raising oil prices. The resulting capital transfers to the main oil producers were substantial, and once the immediate development needs of these countries were satisfied, vast amounts of capital were redirected into the world banking system, pushing interest rates to historically low levels and forcing the banks to find ways to put these funds to work.

During the early post independence years in the 1970s, developing countries were in need of funds to push ahead with their development programs. Interest rates were at attractively low levels. The IMF and the World Bank stepped in and through a syndication process, provided commercial lenders with a mechanism to make sovereign loans with no risk of bankruptcy (Dent & Peters 1999). This action set off a major disbursement of funds to developing countries in the late 1970s. Although some of these loans were placed with appropriate due diligence, it is apparent that many were placed with seemingly scant regard to downside possibilities for the borrowers in servicing and repaying their debts.

Enthusiasm for this pattern of credit flows began to dry up by 1982-83, by which time interest rates had climbed and were to continue climbing. Debt service costs, which

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[♣] All currency references are in US $.

appeared manageable in the late 1970s soon became a burden to many debtor developing countries. The African continent now accounts for 38 of the 51 HIPCs (see Figure 1).

Soon after experiencing the first of the debt servicing problems, visiting teams of experts representing the IMF and to a lesser extent the World Bank and creditor governments gave forceful advice to some 50 debtor governments, directing them to focus their production, which was mainly agricultural, on export crops that would earn foreign currency. As the number of crops suitable for this purpose is only about a dozen (including cocoa, coffee, cotton) the additional production from these countries flooded world markets with the inevitable disastrous effect on prices. Agricultural inputs such as fertilizers, chemicals and agricultural equipment, which had to be imported, became increasingly more expensive as terms of trade deteriorated.

Other advice given by the experts included currency devaluation, reduced public spending, freezing of wages and removal of subsidies. The primary aim of these measures was to increase funds available for foreign debt servicing, with the result that health, education and critical social programs were by necessity, severely cut. The consequential effects on the poorer segments of societies in the HIPCs were serious indeed.

Status of African HIPC Debt Problem/Crisis

The HIPCs of sub-Saharan Africa owe a combined total of some $270 billion, which represents for most of them, 80% or more of a year's GNP, or 250% of a year's export revenues from goods and services (see Figure 1). Approximately 45% is owed to official bilateral sources, 30% to official multilateral sources and 25% to commercial lenders.

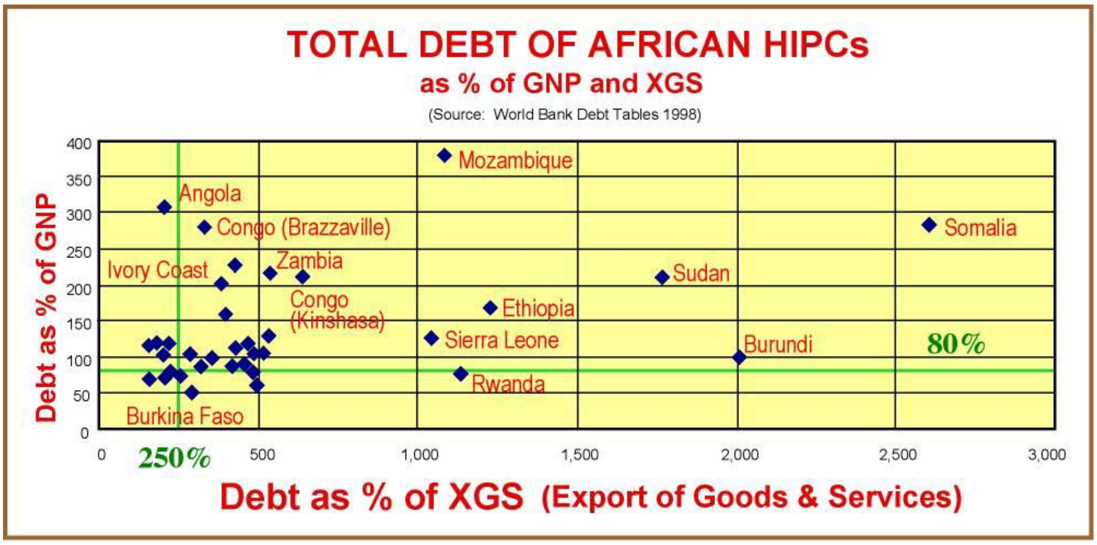


Figure 1. Total debt of African HIPCs as % of GNP and XGS (Export of Goods and Services)

In development terms, Africa clearly has too little to show for the enormous debt burden which it has accumulated since the mid 1970s. Furthermore, most African states lack the capacity to generate the financial resources required to meet even the basic expectations and fundamental needs of their people. The debt overhang, (although largely ignored during the 1990s by many HIPCs), has had the effect of seriously inhibiting any potential new investment and continues to promote the sense of dependency on the Developed Countries. Desperate economic circumstances often lead to conflict, resulting in the diversion of already scarce funds to military purposes further exacerbating the plight of Africa's poor.

Situation in Zambia and DRC

-Zambia

Zambia's external debt at the end of 1999 was $6.3 billion in nominal terms, (or $5.1 billion in NPV[♠] terms; the latter representing 500% of the value of export goods and services and about 900% of central government revenues (IMF IDA, 2000). Multilateral creditors (IMF, World Bank Group & African Development Bank Group) accounted for almost 42% of this debt, bilateral creditors (Japan, Germany & UK) accounted for almost 58%, and commercial creditors around 0.6%. Zambia had benefited earlier in 1994 as a result of a buy-back of about $200 million of its commercial debt under a World Bank supported International Development Association (IDA) debt reduction facility.

With an estimated per-capita GNP of $320 in 1999, Zambia is amongst the poorest countries in sub-Saharan Africa. Social indicators continue to be weak with about 20% of the nation's population HIV infected and nearly 13% of children under 14 years being orphans; the highest percentage in the world (IMF-IDA, 2000). Life expectancy figures (at birth) have dropped from 51 years in 1991 to 44 years in 1998.

-Democratic Republic of Congo (DRC)

The face value of external debt for the DRC by 1996 amounted to more than $14 billion, the dominant components of which were Paris Club debt of approximately $10 billion, multilateral institutions $2.3 billion, and London Club of $650 million.

Debt servicing had begun to falter as far back as 1975 and by the end of 1978 the country had accumulated arrears amounting to $1.2 billion on external debt (Chevallier & Kiakwama, 199x). By 1989 debt service levels had fallen to 44% of amounts due, and during the early 1990s it quickly fell further to less than 2% of amounts due. By 1996, the ability to service this debt had further deteriorated falling to only 0.2% of what was required with accumulated arrears totalling $8.3 billion, 74% of which was owed to the Paris Club (Banque du Zäire, 1997). During the early 1990s, debt obligations had become totally unsustainable.

Responsibility for Accumulated Debt Levels

The African states clearly have a responsibility for the levels of debt, which have been accumulated, but so also does the international community. Bilateral and multilateral loans during the 1970s and 1980s were often linked to geopolitical imperatives, and were used to secure political peace and stability in those areas of interest to the super powers and their important allies. It was not uncommon for African governments to

[♠] Net Present Value of Debt: The NPV of debt is a measure that takes into consideration the degree of concessionality. It is defined as the sum of all future debt-service obligations (principal and interest) on existing debt, discounted at the market interest rate.

be coerced into accepting loans, which they did not particularly need and would be unlikely to be able to utilize in a productive manner. Often inadequate effort was made to ensure accountability for expenditures, notwithstanding clear indications that significant portions of the loans were likely to be misappropriated by senior government officials.

An example of this kind of approach can be found in the DRC (or Zäire as it was called at the time). In 1972 the Government initiated two large projects with estimated costs of approximately $250 million each, designed to make use of the huge hydroelectric potential of the Inga power station west of Kinshasa. One was a steel mill (now defunct) using Italian financing and the other was the construction of a power line from the Inga power station to the Copperbelt in Katanga, a distance of 1,800 km. Considerably less expensive alternatives for sourcing cheap hydroelectric electrical power for the Copperbelt were available from neighbouring Zambia, but the project was pushed forward for purely political reasons; so that the central authorities in Kinshasa would have control of the electrical power to the Copperbelt.

Secondary Market Value of Third World Debt

The secondary market for Third World Debt provides a good measure of the likelihood of a country to meet its debt obligations. The secondary market prices for bank debt for a number of severely indebted middle-income countries as at June 1989 show that many countries have astoundingly low values as depicted in the following table. The low-income countries have lower values.

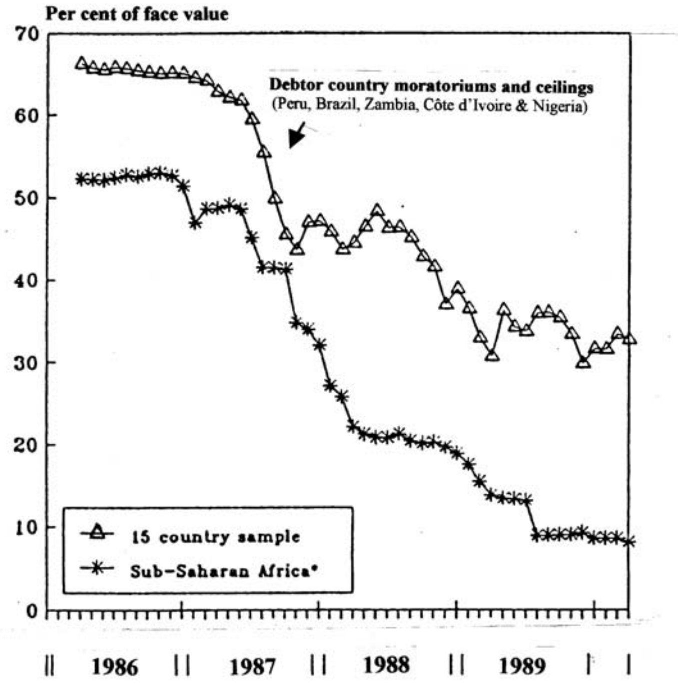
Table 1: Secondary Market prices of Bank Debt for Severely Indebted Middle-Income Countries as at mid 1989 (Face Value = 1)

Argentina	0.18	Côte d'Ivoire	0.06	Peru	0.04
Bolivia	0.11	Ecuador	0.14	Philippines	0.54
Brazil	0.32	Jamica	0.42	Uruguay	0.55
Chile	0.64	Mexico	0.44	Venezuela	0.40
Colombia	0.60	Morocco	0.44	Yugoslavia	0.54
Costa Rica	0.14	Nigeria	0.24		

Source: Nafziger, 1993.

The collapse of the value of developing country debt was triggered in the late 1980s by unilateral action taken by some of the debtor countries when faced with insurmountable debt burdens. Peru announced in 1985 that it would limit debt payments to 10% of the value of exports. Then in early 1987, Brazil's President put a moratorium on interest payments for twelve months, explaining that "A debt paid with poverty is an account paid with democracy" (Nafziger, 1993). By the end of 1987, Nigeria and Zambia had imposed ceilings as a percentage of exports for future debt servicing and Côte d'Ivoire had introduced a debt moratorium.

Figure 2. Secondary Market Bids on Bank Debt of Developing Countries, 1986-90.



Source: Nafziger, 1993 after U.N. (1990).
* Excludes Nigeria.

The effects of these actions on the secondary market bids for bank debt were rather dramatic as the graph above in Figure 2 clearly shows.

Early Attempts at Debt Relief (1985-90)

During the 1970s and early 1980s, the policy approach for Developed Country (DC) and multilateral creditors was to look at the debt problem on a case-by-case basis. However, by the mid- to late-1980s, as the debt problem became a debt crisis, the policy approach had changed, and global debt relief had come onto the agenda.

The initial motivation for a global approach stemmed from the perceived threat to democratic progress in key Less Developed Countries (LDCs) and the fear that if push came to shove, the debtor countries might well form a debtors' cartel, which in the early 1980s, may have forced a complete write-off of Third World Debts. Such an event would have wiped out a number of U.S. commercial banks, which had significantly more exposure to Third World debt than banks in any other country (Nafziger, 1993).

During the following five year period, several plans emerged: The Baker Plan of 1985, The G7 Toronto Terms of 1988, The Brady Plan of 1989, The Trinidad Terms of John Major and The Pronk Proposal in 1990, The Egypt-Poland Terms of 1990 and others.

Baker Plan (1985)

The first of the plans, the Baker Plan in 1985 called for expanded lending rather than debt write-offs and write-downs, and this marked the beginning of the World Bank and IMF Structural Adjustment lending, which was accompanied by increased monitoring and guidance (tax reform, liberalised trade, privatisation and promotion of foreign investment) for the debtor countries involved (Nafziger, 1993). The plan was shown to be vastly underfunded and as it was focussed on middle-income Less Developed Countries (LDC) in financial trouble, it had very little effect on the poorest countries such as those in Sub-Saharan Africa. The dominant achievement of the plan appears to have been the forestalling of a major write-off of LDC debts that might have resulted from the formation of a debtors' cartel, which action would have seriously threatened some <u>nine</u> major US banks.

G7 Toronto (1988)

In 1988, the heads of government of the G7 in Toronto agreed to reschedule concessional debt, (and for the first time agreed to cancelling it in part), with the balance to be repaid with a twenty-five-year maturity. The G7 then asked the Paris Club (bilateral forum for LDCs) to investigate nonconcessional debt and some options were then established which included partial writedowns, rescheduling the remaining debt levels to longer maturities, and rescheduling debt at lower interest rates. The Toronto terms applied only to debt maturing within a specific timeframe, and as such represented only a modest debt service saving which had minimal effect on total indebitness.

Brady Plan (1989)

In 1989, US Treasury Secretary Brady put forward a plan for debt and debt service reduction and new funds allocation relying on World Bank, IMF and other official support. The Brady Plan envisaged commercial banks reducing or writing off LDC debt for either cash or debt-equity swaps, or for newly created bonds which would be partly backed by the World Bank or the IMF. Government and multilateral funds made available under the Brady Plan amounted to $28 billion, the first $5 billion of which was made available in the same year to Mexico. Official aid to developing countries later defined as HIPCs was minimal, particularly those of Sub-Saharan Africa, where the plan resulted in a reduction of only about $2 billion.

Trinidad Terms (1990)

In 1990, the British Chancellor, John Major put forward a plan referred to as the Trinidad Terms to carry out a rescheduling of all debt attributed to low-income debt-distressed countries instead of renegotiating maturities when they fell due; cancelling a massive two thirds of the total debt; capitalising the interest payments over a five year period and establishing a phased repayment schedule tied to debtor-country export and output growth, and spreading the repayment schedule over a 25 year period. This proposal represented a major shift in the position of a significant creditor country.

The G7 meeting in London and the Paris Club nations meeting the following year did not accept the Trinidad Terms largely because of objections from the USA and Japan. In 1991, Prime Minister Major announced that Britain would go ahead and apply

Trinidad terms to the bilateral debt of the poorest nations, a benefit amounting to almost $18 billion. Zambia, Tanzania, Zäire and Mozambique were the main beneficiaries.

Pronk Proposal (1990)

Within a few days of Major's Trinidad proposal, the Dutch Cooperation Minister Pronk proposed at a UN LDC conference that creditor governments cancel all debt owed by the least-developed debt-distressed countries, provided they commit to implementing improved economic policies. Implementation of the Pronk Proposal would see a reduction in debt levels of the poorest sub-Saharan countries by some $40 billion, and a reduction in debt service payments by $3–4 billion annually.

Egypt-Poland Terms (1990)

In 1990 the US government announced the Enterprise for Americas Initiative, under which it traded debt for political support. That same year, in the midst of the Persian Gulf War, the United States government cancelled $6.7 billion in military debt owed by Egypt as well as 70% of the $3.8 billion of US government debt owed by Poland; terms which were more favourable than Toronto Terms.

Debt Relief in sub-Saharan Africa (up to 1995)

-Debt Cancellation/Reduction

Between 1978 and 1990, fourteen OECD countries cancelled more than $2 billion of concessional debt amounting to approximately 20% of the concessional loans to IDA-eligible countries in Sub-Sahara. OECD countries also gave concessional aid for some debtor countries to buy commercial debt instruments at heavily discounted prices.

Between 1987 and 1990, France, Canada, Germany, Japan and the United States converted $2 billion in concessional loans to grants for sub-Saharan countries. Under this arrangement, the United States alone forgave food and development loans totalling $425 million in 1990 and $325 million in 1991 for twenty-three sub-Saharan countries.

-Debt Rescheduling

Between 1980 and 1987, $30 billion of debt-service obligations for some 24 sub-Saharan countries were rescheduled resulting in a reduction to debt-service payments by $10 billion, or 57% of the total (Nafziger, 1993). Sub-Sahara had approximately 10% of LDC debt at this time. Rescheduling for nonconcessional debt included either reductions in interest rates or market rates with longer maturities and grace periods. While the rescheduling reduced debt servicing in the short term, it increased debt service obligations in the long term.

In 1989, twelve sub-Saharan countries rescheduled debt at the Paris Club under Toronto terms. The resulting savings on interest payments amounted to about $50 million or about 2% of the total debt service in 1989 and this action established the principle of concessional rescheduling of official bilateral claims. In addition, up to 1989, bilateral development assistance loans at the Paris Club amounting to $5-6 billion or 8% of sub-Sahara's 1989 outstanding debts were forgiven.

Jubilee 2000 Movement (1993-2000)

Early Motivation

Efforts directed at debt relief during the 1980s and early 1990s were typically individual and somewhat uncoordinated with resulting limited benefits particularly for the low-income, heavily indebted countries of sub-Saharan Africa. The "crushing burden" of unpayable debt on the people of low-income countries and the perceived slow pace of debt relief pushed interest groups to take a stronger stance in the early 1990s with the formation of the Jubilee 2000 Movement. The agencies involved had been working on unpayable debt issues since the Mexican debt crisis in 1982 (Pettifor, 1999) and the formation of the Movement contributed to the development of a more coordinated approach to the debt problem.

The movement, in its more formal structure, was co-founded in 1993 by Martin Dent, an academic at Keele University and Bill Peters, a former High Commissioner in Malawi. They were of the view that lack of attention to the debt issue would eventually force the poorer nations to form a cartel, officially opposed to tackling the debt issue, which in turn might provoke sanctions from the creditor nations, and in turn initiate a potentially bitter and destructive dispute between rich and poor nations.

Jubilee 2000 Coalition

By 1996, a formal coalition of over seventy organisations had been established under the new leadership of South African Ann Pettifor, and within a space of only two years, the movement, then referred to as the Jubilee 2000 Coalition had representation in five of the G7 countries and informal coalitions in forty countries in Europe, Africa, Latin America, South Asia and Australia. The Coalition became a very broad and effective alliance of secular and religious organisations and has arguably played an impressive role in convincing the G7 leaders that debt remission is appropriate, and in convincing the multilateral creditors that the continual rescheduling and additional lending policy of the 1980s and early 1990s was an unacceptable course of action.

Jubilee 2000 Coalition Principles & Motivation

The Jubilee 2000 Coalition's aim was to achieve substantial debt relief for some 51 low-income countries in the four-year period leading up to the beginning of the new Millennium. It has sought to reduce the debt burden to levels that are sustainable, and to levels that will allow governments to have the financial resources to pursue appropriate action for human, environmental and economic development.

The Coalition's drive for debt relief for the poorest countries has had its foundations in the belief that there is a shared responsibility for the debt burdens that have accumulated, that the endless pursuit of debtor nations by creditor nations is unjust, and that multilateral enforced adjustment programs have unreasonably distorted the economies of the debtor nations (Pettifor, 1999).

For example, ninety-five percent of UK bi-lateral debt to poor countries is held by the Export Credit Guarantee Department of the UK's Department of Trade and Industry. These credits are often aggressively promoted to encourage poor countries to buy

British goods, including British manufactured arms. No doubt similar situations exist with the export credit agencies of other creditor nations.

In addition, the Jubilee 2000 Coalition point out that IMF and World Bank lending policies have encouraged African debtor countries to grow foreign exchange earning cash crops such as coffee, cocoa and carnations for export in order to raise the hard currency needed to repay their debts. This switch in activities has distorted the economies of many poor countries, which now cannot produce enough food and clothing locally to satisfy their own needs. The switch by so many poor countries to export crops has also impacted negatively on international commodity prices.

Furthermore, the Jubilee 2000 Coalition took issue with the difference in the way personal and company debts are treated, and the way the creditor nations have tended to treat sovereign debts. In the cases of personal and company debts that become overwhelming, there are limits to the potential impact on debtors, their families and succeeding generations, from the actions of hostile creditors. The limits are enshrined in the concepts of bankruptcy and limited liability. No such concept seems to exist in the case of governments when they effectively become bankrupt. What has usually happened was that the World Bank and the IMF stepped in to reschedule existing debt, and offer new loans to pay off old loans. As a result, in most cases the inevitable has simply been postponed under an ever increasing debt burden.

It has been actions such as those mentioned above that have provided the momentum for the view of the Jubilee 2000 Coalition that debt relief needs to be treated globally.

IMF-World Bank HIPC Initiative (1996)

In 1996, the IMF and the World Bank jointly launched the HIPC Initiative designed to provide special assistance for heavily indebted poor countries that were willing to pursue IMF- and World Bank-sponsored adjustment and reform programs, but for whom traditional debt relief mechanisms were inadequate. It seems that the actions of the Jubilee 2000 Movement were a contributing factor to the introduction of this initiative.

The initiative was a more broadly based and coordinated approach and is designed to provide debt relief to eligible countries in a way that enables an exit from unsustainable debt burdens (ie: reduction to levels that can be serviced through export earnings, aid inflows and capital inflows), as well as a cushion against external shocks, but implemented in a way that reinforces the avenues available to the international community to promote sustainable economic and social development in poor countries, with a particular focus on poverty reduction.

The HIPC Initiative represented the first time that the international community had come together to establish debt sustainability with a clear focus on the capabilities of the debtor countries. The Initiative is a comprehensive and integrated approach that requires the coordinated participation of all bilateral, multilateral and commercial creditors. Forty-one countries comprise the IMF-World Bank HIPC list including: Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Côte d'Ivoire, Congo (Kinshasa), Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Lao PDR, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Yemen and Zambia. Most of these countries are in sub-Saharan Africa.

Qualification for Debt Relief

In order to qualify for debt relief under the HIPC initiative, a country must be an IDA-only borrower, and not an International bank for Reconstruction and Development (IBRD) borrower. It must face an unsustainable debt burden, after application of available debt relief mechanisms. It must then adopt adjustment and reform programs supported by the IMF and World Bank and follow those programs for a period of three years. During this qualifying period, the country continues to receive traditional concessional assistance from all the relevant donors and multilateral institutions, as well as debt relief from bilateral creditors (including the Paris Club).

On successful completion of the qualifying period, a determination is made on the country's debt sustainability; defined as the ratio (expressed in % terms) of the net present value (NPV) of the country's debt to exports (discounted at commercial interest rates) and the NPV of the debt to government revenues.

Delivery of Debt Relief

The debt relief from the HIPC Initiative is delivered through two vehicles; the HIPC Trust Fund and IDA grants and allocations (IMF-WB Press Conference, 1999).

The Trust Fund gets its funds from transfers from IBRD net income and bilateral contributions. The Trust Fund delivers the debt relief in two ways; firstly, it buys IDA credits and then cancels them and secondly, it services the IDA debt as it falls due. The IDA grants and allocations are available for disbursement early in the process. Approximately two thirds of the debt relief is received through the HIPC Trust Fund and one third through IDA grants (as of April 1999).

However, the qualifying period for the HIPC Initiative was considered by many to be too long, and the eventual relief too little, which led the IMF and World Bank to review their 1996 debt relief initiative.

Enhanced HIPC Initiative

In October 1999, following a review of the HIPC Initiative, it was decided to provide "broader, deeper and faster" relief by increasing the number of eligible countries, increasing the amount of debt relief each country would receive, and speeding up the delivery process. The target for the Enhanced HIPC Initiative were to reduce the NPV of the debt to a maximum of 150% of exports value (down from 200-150%) and 250% of fiscal revenues (down from 280%), and was to be provided in addition to the relief available under traditional debt relief mechanisms. In addition, the enhanced initiative was designed to strengthen the links between debt relief, poverty reduction and social policies.

The Enhanced HIPC Initiative is expected to result in a reduction in external debt for most qualifying countries of up to 90% (IMF-WB, 2000-Press Conference), and place them in a position where there ongoing external debt servicing is sustainable, there is adequate capacity to fund social programs, and incentives are created to encourage foreign investment.

Funding for HIPC Initiative

As of January 2001, total bilateral contributions and outstanding pledges to the HIPC Trust Fund amounted to more than $2.5 billion, of which $950 million had been paid in. The UK was the first country to contribute a substantial amount ($171 million) with commitments of over $100 million coming from USA ($600 mill.), UK ($221 mill.), Germany ($226 million), Japan ($200 mill.), Netherlands ($138 mill.) and Canada ($102 mill.).

Many donors have also provided additional debt relief through other initiatives and mechanisms such as the Debt Reduction Facility for IDA-only countries (finance for commercial debt reduction), and specific purpose emergency trust funds, such as the Central American Emergency Trust Fund in the aftermath of cyclone Mitch which benefited Honduras and Nicaragua.

In order to fulfil its obligations, the IMF between December 1999 and April 2000 completed seven off-market gold transactions for a total of 12.9 million ounces of gold. The IMF approved the transfer of a significant portion (64%) of the investment income from the profits of these gold sales to the HIPC Trust. In addition, some 80% of the pledged bilateral contributions to the Trust have been received or a schedule has been agreed for their transfer to the Trust. The degree to which the HIPC Initiative has been endorsed has been remarkable.

Impact of HIPC Initiative

At the end of 1999, it was anticipated that under the HIPC Initiative, 32 countries would require assistance, estimated to amount to $28.6 billion (in end 1999 dollars). The IMF component of this cost is expected to amount to approximately $2.2 billion.

The first countries to receive debt relief under the Initiative were Uganda and Bolivia. By February 2001, the number of countries that had begun receiving debt relief had increased to 22 (World Bank, 2001). The total debt relief expected to be achieved is $34 billion over time, representing a reduction of $20 billion in NPV terms. This is approximately 70% of the total debt relief expected to be delivered under the HIPC Initiative. Approximately 35 countries could ultimately qualify for assistance under this initiative.

-Zambia

Notwithstanding the problems facing Zambia, including serious weaknesses in macroeconomic management, during the early 1990s this country has been able to make substantial progress in structural reforms, in areas such as privatisation, deregulation, exchange control, trade liberalisation as well as broadening and increasing tax collection and promoting democracy and multi-party elections. This progress has made it possible for Zambia to qualify for debt relief under the Enhanced HIPC Initiative.

In December 2000, the IMF and the World Bank agreed to support a comprehensive debt reduction package for Zambia amounting to more than $3.8 billion, equivalent to $2.5 billion in NPV terms, or approximately 63% (in NPV terms) of the outstanding debt at the end of 1999, after the full use of traditional debt relief mechanisms.

-Democratic Republic of Congo

The situation in the DRC is somewhat different. Since 1996 when the HIPC Initiative was introduced, the political situation has been anything but stable. Mobutu, in power for more than 30 years was overthrown in a popular movement in May 1997, which resulted in Laurent Kabila assuming the Presidency. For a period of approximately one year, there was a great deal of optimism that the country was entering a period of renewed hope and foreign investors flocked in. Lack of experience in Government, mismanagement, lack of transparency and other factors including border problems, resulted in foreign military intervention in August 1998, which quickly escalated into a conflict involving six Central and Southern African nations. Foreign investors were forced to either withdraw or place their projects on hold. Adherence to a military rather than a political solution to the DRC conflict appears to have contributed to the assassination of Laurent Kabila in January 2001.

The debt burden for the DRC is a staggering $22 billion, most of which ($16 billion) is owed to the Paris Club. The IMF and the World Bank have recently re-engaged the country and the IMF expect to re-establish a presence in Kinshasa by September 2001. As the DRC is “a country coming out of conflict”, opportunities exist to shorten the qualifying period to restart assistance. The extent and timing of the possible multilateral assistance very much depends on the actions of the new government over the coming 6 to 12 months.

Cost of Debt Relief

As most of the debt owed by the HIPCs is unlikely to be repaid, the actual cost of debt relief might reasonably be the expected repayment amount. The discounted value of low-income country debt (ie the price at which it can be sold on the market), varies between 80% and say 5% depending on the country, with an average of about 38%. According to Dent and Peters (1999) with a total face value of the debt owed by the 51 low-income countries of approximately $269 billion, a rough estimate of the cost of total debt remission might be 38% of $269 billion, or $102 billion. This amount is of the same order of magnitude used to bail out the Asian tiger economies in the late 1990s, when the IMF facilitated a $120 billion bail-out of creditors following what has been described as a period of reckless lending (Garrett & Travis, 1999). One might well ask: why not for Africa?

In 1999, the Jubilee 2000 Coalition estimated for the 41 countries on the IMF-World Bank HIPC list, that the market value of their $200 billion of debt was only $24 billion. It is informative to note that according to Jubilee 2000 estimates, for sub-Saharan Africa, 65% of the new debt accumulated since 1988 is represented by capitalised interest and arrears.

Sub-Saharan Africa Situation

Natural Resource Endowment in Africa

In general, Africa is a sufficiently rich and fertile continent for a solid foundation of prosperity to develop. This is certainly the case in terms of the continent's mineral resource endowment. Unfortunately, during the post-independence period, sub-Saharan Africa has largely been by-passed by those able to assist in its development. The capital and technology exporting countries have for some time had a global perspective, which has directed investment to destinations with lower political risk and more certainty of outcomes. This has resulted in Africa becoming largely marginalised, with long-term foreign direct investment (FDI) flows preferentially going to SE Asia and South America.

Problems with the Nature of African Political Victory

From time to time, there have been bright spots in Africa, but often these have been short lived and even today countries that appear to have acceptable combinations of investment climate elements, have the potential to reverse on short notice (as evidenced by recent events in Zimbabwe, Ivory Coast and Senegal).

The problems in Africa seem to emanate to a large degree from the nature of political power, a characteristic clearly enunciated by Kofi Annan in his 1988 Report on Africa in which he points out that political victory is often accompanied by a "winner-takes-all" attitude with respect to political control, wealth, control of resources, patronage and the prestige and trappings of holding high office. This attitude had its origins during the colonial times when the colonial State avoided local representation or participation. Very centralised and highly personalised forms of governance result, lacking adequate accountability, transparency, adherence to the rule of law, and respect for human rights. As the state has often been the major provider of employment and political parties are often either regionally or ethnically based, a change in political power can easily bring a profound sense of communal advantage or disadvantage. It is therefore not uncommon to see such situations descend into ethnically based conflict.

Need for African Commitment

Solutions to such problem situations are neither simple nor easy, and although the developed world can play a significant role, the desired outcomes will never be realised without serious contributions from the African states themselves (Annan, 1998). The **first** of these commitments will be a willingness to use the political process rather than military force to resolve conflict. The **second** will be a commitment to embrace the principles of good governance seriously. The **third** will be a commitment to adopt the legislative reforms needed to promote economic growth and to adhere to their implementation until a solid and sustainable economic foundation has been established.

Sustainable development in sub-Saharan Africa countries requires the commitment to a partnership with international institutions and bilateral donors, in which the "leadership and basic responsibility must be borne by the Africans" (Wolfensohn, 2001). Without such a commitment, development progress will be episodic, short lived and unsustainable.

Multilaterals as Catalyst for Positive Change

The UN can have a marked catalytic effect at the front end of this process, but lack of success in the intervention in the Somalia conflict has created an unacceptable reluctance in the UN to adopt a proactive stance in most subsequent conflicts in Africa. The Rwanda genocide in 1994 and the inaction of the UN was one of the resulting tragic events. The UN involvement in the DRC conflict could mark the beginning of a renewed confidence in the ability of this important organisation to find much needed political resolutions to armed conflict. This in turn may provide the encouragement for African governments to seriously consider the issues of good governance and appropriate legislative reform, required to promote economic growth. The World Bank and the IMF can have a similar positive effect in terms of the debt relief issue and the implementation of the steps necessary to initiate sustainable development.

Widening Gap between the West and sub-Saharan Africa

The difference in income between the richest industrialised nations of Europe and the poorest nonindustrialised countries of sub-Saharan Africa, is approximately 400 to 1. Two hundred and fifty years ago, the gap between the richest and the poorest was perhaps 5 to 1 (Landes, 1998).

For a number of sub-Saharan Africa countries since independence, this gap has not only been growing at an alarming rate, but in absolute terms, a number of countries have been growing poorer. There is an obligation on the Developed Countries to improve the human condition in these poorer countries, and it is also in our long-term interest to do so. In his recent book, "The Wealth and Poverty of Nations", Landes comments, "If we do not, they will seek to take what they cannot make; and if they cannot earn by exporting commodities, they will export people. In short, wealth is an irresistible magnet; and poverty is a potentially raging contaminant: it cannot be segregated, and our peace and prosperity depend in the long run on the well being of others."

Sustainable Development

Debt Relief as the First Step

The debt overhang is not the most significant issue that the HIPCs face, but it is a serious problem that continues to inhibit efforts to re-establish development and growth. Most importantly, it is also an issue, which can be addressed more expeditiously than many of the other problems facing these countries.

The HIPC Initiative at the end of Year 2000, had debt relief in place for 22 countries. This initiative, in coordination with other forms of debt relief will see total debt in these 22 countries cut by more than two-thirds (Wolfensohn, 2001a). This has enabled these countries to increase social expenditures and to look towards opportunities for rebuilding their economies. Zambia is a good example.

The Next Step

The benefits delivered through debt reduction efforts will be short lived if the next steps aimed at rebuilding economies, rebuilding infrastructure, rebuilding bureaucratic capacity, enhancing economic management, reducing corruption, improving access to

Developed Country markets and moves towards more democratic forms of government are not taken quickly. These can be done through continued development assistance (aid programs) for health, education, infrastructure, institutional strengthening, and actively encouraging foreign direct investment (FDI) on attractive projects that have been held up for years because of negative investment climate perceptions, particularly political risk.

Access to Developed Country markets is a priority. The extent to which this is an issue is clearly reflected in the fact that industrialised countries spent more than $300 billion on agricultural subsidies during 2000; an amount roughly equal to the total GNP for all of sub-Saharan Africa (Wolfensohn, 2001b).

Stakeholder Coordination

The IMF-WB HIPC Initiative in 1996 pulled together, in a manner which had not been possible before, a large and diverse number of stakeholders concerned and involved with the issue of Third World Debt. The same parties and others including the Non-Government Organisations (NGOs) (see Figure 3) have vested interests in the issue of sustainable development for these same countries. It is clear that there are important synergies to be tapped, and that "broad based involvement" which includes the multilateral and bilateral organisations, the private sector and civil society provides a much better chance of achieving the desired outcomes.

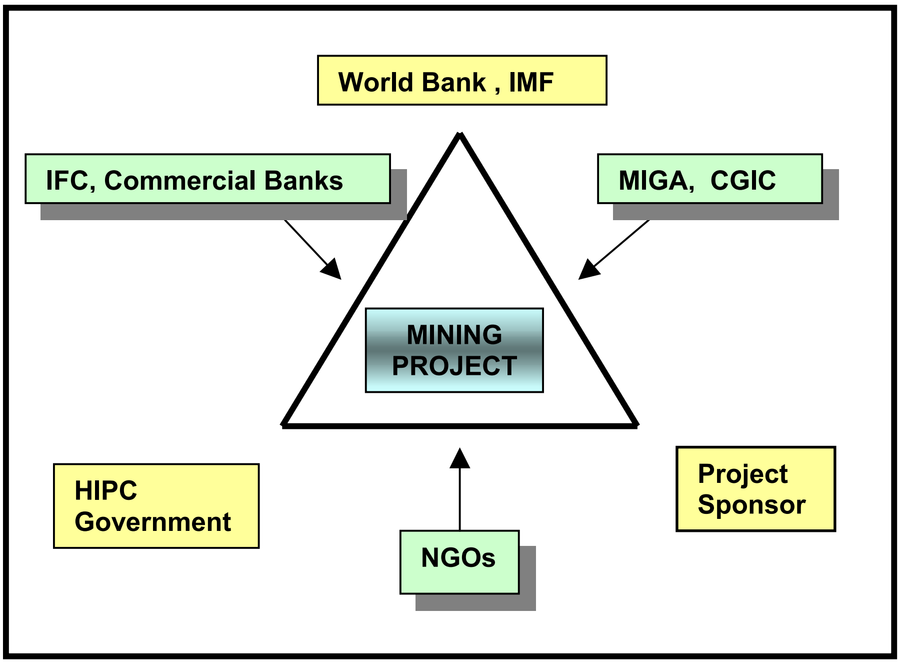


Figure 3: Stakeholders with vested interests in Third World debt and sustainable development issues.

Stakeholder Synergies

The Multilateral Institutions (World Bank, IMF & IFC) could play a major role in overcoming the negative investment climate by debt funding, on a mixture of IDA and commercial terms, the social, environmental and infrastructure components of FDI investments. Such multilateral involvement would significantly reduce the financing demands on the project sponsors and could be the catalyst for the participation of equity investors (project sponsor shareholders) and project financing institutions (merchant banks), much the way the IFC has traditionally been able to encourage the entry of commercial banks in the traditional A & B loan structures. NGOs could have a significant role to play in the implementation of the social and infrastructure elements of these projects with greater access to longer term funding. The positive influence of World Bank lending and the partnering with commercial enterprises should not be underestimated.

The involvement of the Multilateral Investment Guarantee Agency (MIGA) in coordination with Developing Country Export Credit agencies (eg CGIC of South Africa) in the provision of a portion of PRI for the FDI component of the investment could make the model work.

The effective coordination of the efforts of the various stakeholders, and the tapping in to the synergies that would emerge, might provide the best opportunity to achieve sustainable development in a secure political and commercial environment carried out with a focus on what is now commonly referred to as the triple bottom line; adequate financial returns to the investors and host government, social and infrastructure benefits to the local people living in the region of the project, and responsible environmental management.

Relevance of the Mining Industry

For most HIPC countries, it is the mining industry that often is the easiest to kick-start. FDI opportunities that are attractive from the resource quality (high-grade) and technical risk (simple metallurgy) viewpoint are often very well defined by previous resource evaluation work carried out by quasi-government organisations, but have not moved forward because the normal project financing facilities provided by the IFC and commercial banks require expensive, long lead-time, in depth feasibility studies, infrastructure is poor and comprehensive political risk insurance (PRI) cover is required.

In some countries, such as Zambia and the DRC, there is significant mining infrastructure already in place, albeit somewhat run-down, and often showing the results of inadequate commercial and technical management. Such projects, when privatised, can generally be turned around relatively quickly, and can be one of the most efficient ways to provide renewed long-term employment opportunities, a long term source of significant government revenues, and a very effective catalyst for initiating broader based development.

Concluding Comments

The magnitude of the debt problems for many HIPCs created a unique opportunity for the multilateral organisations and Developed Countries to trade essentially un-repayable debt for peace, more democratic systems of government, greater administrative transparency and less corrupt practices, and initiate significant economic restructuring for the better in the poorest countries of the world.

Significant progress towards Third World debt sustainability has been made during the last ten years and this has been possible, particularly in more recent years, through the better coordinated actions of the multilateral organisations, Western and Third World governments, and civil society. The opportunity to be part of this action has encouraged Third World governments to begin to undertake the required legislative reforms. Some Third World governments have subsequently been able to increase the funds available for important social programs.

Such changes in time can only lessen the sense of dependency on the developed world, encourage the development of self-sustaining economies and eventually open up new and significant markets.

The synergies that can be released by increased coordination between the various stakeholders are beginning to be appreciated and the World Bank and the other multilateral institutions, as well as private enterprise are now more responsive to the concept of such partnering arrangements.

As the mining industry is often the easiest to kick-start in Third World and Developing Country environments, largely because the required initial inputs are mostly externally sourced, it is an industry on which considerable focus should be brought to bear in the early stages. For countries such as Zambia and the Congo (Kinshasa), where there is already substantial mining infrastructure, the opportunity for a quick turn-around as a result of privatisation clearly exists. Success in getting the mining industry up and running can be an effective catalyst in initiating broader based development, as can already be seen in Zambia.

Without a reasonable start on the economic development of sub-Saharan Africa, and moves towards greater social justice, there can be no hope of political stability in this part of the world. As the President of the World Bank recently commented, "the people of sub-Saharan Africa do not want charity, they want a chance". A better co-ordinated approach that pulls together all the stakeholders and releases the important synergies that are available, must provide a better opportunity of delivering that chance for those in need of it.

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