

# Debt and Poor Countries

*Yash Tandon*

*Yash Tandon is the Director of the International South Group Network. He presented this paper to the United Nations Development Programme's Civil Society Workshop on Debt and Poverty Reduction, held in New York in January 2000.*

Let me first introduce my organisation and myself. I am a citizen of a highly indebted poor country, Uganda, and I now live in Zimbabwe. I am director of a network called the International South Group Network which works on issues related to development, debt, human rights, gender, democracy and governance, and trade. The Network was founded in 1994 at the University of Fort Hare in South Africa. It is a founder member of Jubilee South, which is distinct from Jubilee 2000. Whereas Jubilee 2000 is a northern-initiated project which aims to put pressure on Northern Governments, Jubilee South is motivated to enlighten civil society in the South on the debt issue, and to lobby South Governments. Whereas Jubilee 2000 is a short-duration campaign aimed at reducing the amount of debt, Jubilee South is a longer-term movement aimed at raising the systemic issue that makes debt such an endemic problem. Jubilee South advocates rejection of the Highly Indebted Poor Country Initiative and a total cancellation of debt.

## **Current Dialogue**

First, I'd like to thank the United Nations Development Programme (New York) for inviting us, members of the civil society, to share ideas on this very important subject. We welcome this as part of the larger process of opening up the United Nations Development Programme to civil society. Having said this, I'd like to say that this is the only diplomatic statement I'll make. From here on I shall not force myself to 'be nice'. I think it will serve our interest best if we are as candid and open as the tolerance of our hosts will allow. We are not here to embarrass our hosts. But we need to express ourselves freely, or else our being here serves no purpose. Why do I find it necessary to say this? Because I have noticed that developing countries have been losers in international trade negotiations because they

tend to think they must remain polite. I have been sitting in some of the trade negotiations in Geneva, and I discovered that the developing country negotiators tend to be either polite out of fear of the presence of donors or World Bank or International Monetary Fund representatives, or quiet because of not wanting to expose their ignorance. On the other hand, the developed country negotiators are hard bargainers, and often downright rude. You will forgive me therefore if I apply some of the lessons I learned in Geneva. If I appear to sound rude, I can only say that I have learned this from my masters.

So the first point I want to make is that the framework for dialogue of this meeting is not right. It's not fair to us members of the civil society. The objective of this exercise is to work out a United Nations Development Programme-Civil Society 'partnership agenda for action' on an enhanced Highly Indebted Poor Country Initiative. This is what the United Nations Development Programme's *aide-memoire* says in paragraph 1. But then in paragraph 24, it says that the Highly Indebted Poor Country Initiative has already been designed, and that it may be 'too late' for revisions 'to the major components'. It goes without saying that this meeting is the 'final opportunity (for the World Bank/International Monetary Fund) to refine the framework based on compelling feedback from civil society'. But suppose we want not just 'refinement' but annulment of Highly Indebted Poor Country Initiative, or a drastic restructuring, are we already time-barred? If so, then that is not right. Do we have to go through the Seattle kind of process again to emphasise that it is not right to decide things above the heads of the people? Why do we always have to protest and say 'no', or take to the streets before we are heard? Seattle showed that it is not right to decide matters behind closed doors and then present the people with a *fait accompli* on a take-it-or-leave-it basis. International organisations, especially the World Bank, the International Monetary Fund and the World Trade Organisation, constantly talk about transparency and good governance, but they do not observe these in their own operations. By their lack of democracy, they drive us to the streets to demonstrate and protest. What is the point of being asked to make a critique of the Highly Indebted Poor Country Initiative if it is already 'too late' to change its architecture? Are we here simply to give a pre-structured design a rubber stamp approval by us so that the World Bank/International Monetary Fund can say that the civil society has been 'consulted' and now they can proceed with the implementation? I am afraid that we cannot go further on this basis. It's not acceptable to us.

The sense I have is that even the United Nations Development Programme is brought on to the Highly Indebted Poor Country Initiative agenda only after the World Bank and the International Monetary Fund staff have already worked on the design and got these approved by their respective Boards. I can't speak for United Nations Development Programme, but if I'm right about the process, then I think the United Nations Development Programme should also not swallow this kind of insult. The World Bank and the International Monetary Fund know that

they do not really have a good rapport with civil society in the developing countries, and they do not have the kind of presence that the United Nations Development Programme has. Hence, they have approached the United Nations Development Programme to take their agenda for them into the field and involve civil society. If the United Nations Development Programme has brought us here simply to identify our role in making operational an agreed agenda on the enhanced Highly Indebted Poor Country Initiative, then the United Nations Development Programme is making a serious mistake. The United Nations Development Programme enjoys considerable goodwill among many of us. Do not allow yourselves to be used by the World Bank and the International Monetary Fund to make us jump into bed with them.

So my first suggestion is that the meeting is turned into an honest, open-ended, forum, with no conditions attached to our participation. We members of the civil society and the United Nations Development Programme should be taken seriously by those who have already designed the Highly Indebted Poor Country Initiative and now say it is 'too late' to change it in fundamental ways. If this workshop decides that the Highly Indebted Poor Country Initiative must be changed fundamentally, then the World Bank/International Monetary Fund officials must go back to their drawing boards. We can work in this forum only on that basis. To work on any other basis would be a violation of the principle of democracy and good governance of global institutions. The idea of the workshop is to set up a 'partnership agenda for action' within six weeks from now. We insist that those of us who have the time and the energy from our side be involved in this process in good faith. We must avoid unilateralism on the part of either the Fund or the Bank or the United Nations Development Programme. Let me now come to the substance of the matter.

### **Why Civil Society must reject the Highly Indebted Poor Country Initiative**

Let me first comment on some positive developments. The first is that the World Bank/International Monetary Fund have finally made the link between debt and poverty. This, in my view, is a positive development. We in civil society have been arguing for this for years. Debt cannot be handled in isolation from the broader issues of poverty and development. It is simply because of their dogmatism that the staff of these institutions refused to make this link earlier. They insisted on treating debt in isolation from the issue of poverty. Now that they have made this link between debt and poverty, they are going about it in the wrong way. But we shall come to this in a minute. The point to note, however, is that the World Bank/International Monetary Fund always act almost ten years too late. The other positive development is that they finally brought debts owed to multilateral institutions on to the negotiations agenda. This has taken them even more than 10 years. The Bank and the Fund learn lessons exceedingly slowly. They begin to dig a well when people are already dying of thirst. As we shall argue later, what holds the Bank/International Monetary Fund staff back are the interests of the G7 countries which control them. The G7 are not really serious

about tackling poverty. And the debt agenda is driven by the creditors and not by, and in the interest of, the debtors.

The second problem with the Bank/International Monetary Fund staff is that they do not do their work honestly. They let their professionalism be corrupted by the politics of the G7. Corruption comes in many forms. The first phase of the Highly Indebted Poor Countries Initiative is a perfect example. It failed because it was badly crafted. That is why they have now designed an enhanced version of it. The Bank and the Fund employ highly paid economists and statisticians, but judging by their record of anticipated gains the Highly Indebted Poor Countries should have made, but which never materialised, we must conclude that there is something fundamentally wrong about their method of work. One government official from Uganda told me that the World Bank/International Monetary Fund figures are derived not from the needs of the Highly Indebted Poor Countries in question, but from certain political constraints under which the Bank and Fund staff operate. Thus the 'debt sustainability' calculations of the Highly Indebted Poor Country Initiative number one were essentially 'negotiated numbers' which had nothing to do with the objective requirement of the situation. For example, let us suppose it required a 90% reduction in debt service flows to bring the debt of a particular country to what might be a 'sustainable' level, even by Bank/Fund standards. But if this was not politically acceptable to the creditor countries, then the Bank/Fund staff would manipulate the figures to conform to those which were acceptable. The Bank/Fund staff are really servants of the G7 creditor countries. During the Highly Indebted Poor Country Initiative negotiations, for example, Germany, Japan and the United Kingdom raised objections to debt relief on grounds that this would undermine the credibility of the Bretton Woods institutions and create 'moral hazard'. Hence, instead of the 90% reduction objectively needed by the situation in Mozambique, the Fund staff manipulated the figures so as to make it appear that a 25-30% reduction would still be 'debt sustainable'. They play all kinds of statistical tricks (like front loading and back loading of high-interest or low-interest loans) so as to please the creditor countries rather than objectively serve the interest of the Highly Indebted Poor Countries in question. Their figures are manipulated figures. They are politically derived figures. They are not honest figures. The World Bank/International Monetary Fund staff have been corrupted by their masters.

This is also true when they work out, for example, export earning projections. Often these are based on contrived figures in order to come up with debt reduction figures that satisfy the creditors rather than the debtors. Thus, for example, in the case of Uganda they assumed sharp rises in coffee prices and coffee exports in volume in order to get high export-earning figures on which to calculate the debt Uganda would be able to pay 'sustainably'. But these figures turned out to be quite fictitious. The Fund staff draw their figures and predictions about the market from out of black boxes with a completely unreliable set of assumptions. Once again, these assumptions are politically rather than professionally inspired. The

figures look impressive only because they appear to be 'scientific' in the form of tables or graphs, but their credibility is practically zero.

These figures are purely public relations exercises to satisfy the press and public opinion in the domestic arena of the creditor countries, to keep the Oxfams and others at bay. Thus, for example, if Mozambique's debt service figures were, say, US\$300m a year, then the Fund's 'experts' will manipulate figures to bring these down to say \$100m (one-third of the total) to make it look politically palatable to the creditors. This would satisfy those criticising the Fund that 'something' is being done for the poor Mozambicans. The impression is created that the country has been 'relieved' of \$200m, which should therefore be available for 'poverty reduction', when, in fact, no real resources were released. And then the unpaid \$200m adds to the debt stock, and thus the debt goes on increasing year after year. If the matter was not serious, and if it did not involve the lives of people, you would have to laugh at the sheer absurdity of the Bank/Fund logic. It is no wonder that nothing came of the Highly Indebted Poor Country Initiative Number One.

Let us go deeper into the subject. There is the baggage of conditionality which comes with the Highly Indebted Poor Country Initiative. Indeed this is the most dangerous part of the Initiative. In 1995, for example, the Bank wanted Mozambique to lower tariffs on processed cashew nuts. Mozambique refused. It had, I think, a 20 per cent protection of its locally processed cashew nuts, and the Bank wanted it reduced to 14 per cent. So the Bank's will was imposed on Mozambique as a condition of the Highly Indebted Poor Country 'relief'. The result was that the local factories could not withstand competition from Indian cashew nuts. Many closed down, and 10,000 people lost their jobs. Now the Bank wants Mozambique to abolish import duty on sugar, all in the name of 'liberalising trade'. What happened to the cashew nut industry now threatens the sugar industry. And yet the image created in the media, and in the domestic arenas of creditor countries, is that by introducing the Highly Indebted Poor Country Initiative, the Bank/Fund are really acting as 'friends' of Mozambique. If you have such 'friends', as they say, who needs 'enemies'?

Let us go still deeper. This concerns the World Bank/International Monetary Fund's dogma that countries pursuing 'sound policy environments' induced by debt 'relief' would attract foreign capital, which will solve their problems of poverty. Hence, this is made part of the Highly Indebted Poor Country Initiative's conditionality. This is one of the most laughable of the Bank/Fund's dogmas. The tragedy is that the staff of the Bank/Fund appear to believe in this hilariously comical assumption. And they want the civil society in Highly Indebted Poor Countries to monitor the creation of 'sound policy environments' so that foreign capital can come and solve the country's problems. In fact, the Bank/Fund are putting the cart before the horse. It is not foreign direct investments which bring growth, but growth that attracts foreign capital. In Africa, Angola attracts more foreign direct investment than Zambia because of its oil and despite the civil war. Yet Zambia, under the present regime, has

fulfilled practically all the 'policy' requirements of the Bank/Fund to attract foreign capital. The argument that foreign direct investments come to develop third world economies is one of the biggest lies of our time. It is a lie which is swallowed even by our governments.

Then there are political conditionalities that come with the Highly Indebted Poor Country Initiative. The Bank/Fund economists have no understanding whatsoever of things like democracy or good governance. It is not their job. They have no skills in this area. In any case, their masters have corrupted them. And yet, as directed by their masters, they put good governance as part of the conditions of the Highly Indebted Poor Country Initiative. This is another area of absurdity in the Bank/Fund's conceptual baggage. They have no means of monitoring good governance. The notion of corruption has become their sole yardstick to measure good or bad governance. And Transparency International, a body set up by a former President of the World Bank, Robert MacNamara, has become their new-found monitoring mechanism of corruption. This body has designed a 'scientific' looking scale of corruption which appears to serve the purpose of a substitute for measuring 'good governance'. And yet Transparency International's concept of corruption is seriously flawed, and its understanding of corruption partial and self-serving (a subject that we cannot go into here at any length).

Political conditionality and a correct 'policy environment' to attract foreign capital could include a pliant, subservient working class. Thus, Guyana was taken off the list of the Highly Indebted Poor Country Initiative because the workers went on a general strike. So you have an absurd situation where the workers take to the streets because the system does not look after their interests, and the Bank/International Monetary Fund find this intolerable because it violates their notion of 'good governance'. This is really quite absurd.

How has the revised Highly Indebted Poor Country Initiative addressed these serious problems of the original Initiative? The answer is that it has not. The figures put out by the Fund staff are still politically cooked to satisfy the requirements of the creditors rather than those of debtors. I have talked to some responsible officials in both Mozambique and Uganda. They tell me, in confidence, that they have no choice but to accept the Highly Indebted Poor Country Initiative because, for various pragmatic reasons, they are afraid of the donors, that they would be pleased if civil society would take the responsibility of challenging the donors about the Highly Indebted Poor Country Initiative.

Mozambique's official line, in any case, is 'thanks for the Highly Indebted Poor Country Initiative, but we need 100 per cent cancellation of debt'. So, although the World Bank/International Monetary Fund staff might say that the enhanced Highly Indebted Poor Country Initiative is welcomed by the so-called 'beneficiary' states, actually the latter welcome it only because when you are down on the floor crushed by the creditor on top of you, what do you do? Let me be very clear – at least the Highly Indebted Poor Country Initiative countries that I know do not want the Highly Indebted Poor Country Initiative; they want outright cancellation of Debt.

The second point is that the Enhanced Highly Indebted Poor Country Initiative suffers from the same conditionality problem as the first Highly Indebted Poor Country Initiative. It is a leverage to push the Highly Indebted Poor Country Initiative countries to adopt policy positions to facilitate the entry and operation of foreign capital in those countries. In other words, the Highly Indebted Poor Country Initiative is achieving what the Multilateral Agreement on Investments failed to achieve globally because of opposition from third world countries and people's movements. This is quite unacceptable. The policy positions are premised on the Washington Consensus assumptions which themselves have been found to be based on false premises. I don't understand how civil society, nor indeed the United Nations Development Programme, can support a programme which is based on the discredited Washington Consensus.

A third reason why the Enhanced Highly Indebted Poor Country Initiative should be rejected is that it still does not address the basic issue of poverty in the countries involved. The World Bank/International Monetary Fund have linked debt with poverty. This, as we said earlier, is a positive development. But they are making the wrong connection. They think that by relieving part of the debt they would save money that the Highly Indebted Poor Country Initiative countries would be able to use for welfare activities. And they think that liberalising their markets would make their economies competitive, and help secure foreign direct investments. Both these assumptions are false. They want civil society organisations to help design the operation of this, and to monitor implementation. This is like asking civil society to pull the cart after the World Bank/International Monetary Fund have put the cart before the horse. It is an absurd notion. It *will not* succeed. They are avoiding the issue of poverty in the developing countries. They are treating the symptoms.

Now the Bank/Fund want the debtor countries to work out national Poverty Reduction Strategy Papers in order for them to qualify to receive Highly Indebted Poor Country Initiative support (Para.20 of the United Nations Development Programme *Aide-Memoire*). But this is to be done 'with the assistance of the World Bank/International Monetary Fund'. This will not work. The World Bank/International Monetary Fund remain the 'gatekeepers' with a veto to disallow things they do not accept. If, for example, a country participating in the Highly Indebted Poor Country Initiative wants to put money into free health and free education and the World Bank/International Monetary Fund staff say that this is not allowed under the 'cost recovery' formula, then the debtors will be subverted. There is something which the World Bank/International Monetary Fund staff have never understood, or never learned from the Structural Adjustment Programme experience. It is that no programme of theirs will ever succeed if the country has no political commitment to it. These are projects imposed by the Fund and the Bank. The responsibility for their failure is that of the Bank and the Fund. Why should civil society be involved in an exercise they do not own? In fact, the Bank/Fund are using the concept of the 'interim' paper on poverty by the debtor countries to skip the process of involving the non-

governmental organisations. The non-governmental organisations will be brought in only when the World Bank/International Monetary Fund 'gatekeepers' have done their work on the so-called 'interim' paper. Why should the non-governmental organisations come in at that stage? The whole thing smacks of the kind of manipulation that some of us witnessed at Seattle.

### **Conclusions and recommendations**

It is clear that the enhanced Highly Indebted Poor Country Initiative is only enhanced cheating. I am afraid that is the only honest thing to say about it. It is high level cheating, high-level manipulation of the kind that took place at Seattle. This cannot be endorsed either by civil society or, in my view, by the United Nations Development Programme. They must not be party to it.

The only way forward is to look at the issue of poverty and development with a fresh approach. The Washington Consensus must finally be declared dead, and it should be buried for good, never to be resurrected in any form or disguise. The poverty reduction strategies must analyse fundamental causes that create poverty and underdevelopment. The analysis must be done by the people affected, the people of the South, and be implemented by their governments with the help of civil society. The process must be owned by the people and accountable to them. Any other approach is top-down and will not carry the necessary political commitment, which is the principal reason why the Structural Adjustment Programmes have failed.

The debt issue, too, must be looked at afresh. First, it is necessary to look at the entire debt stock, and not just debt service flows. It is easy to manipulate figures for debt service flows, and to make it appear as if a country is 'sustaining' its debt when, in fact, the debt stock is increasing even further. One needs to look into the terms of trade between the export products and the imports of the highly indebted poor countries to understand why the debt continues to pile up. One needs to look into the financial transactions of these countries and analyse their impact on debt creation. The debt issue must be examined not from the creditor nations' viewpoint only (as the World Bank International Monetary Fund tend to do), but, principally, from the debtor nations' viewpoint. For example, the 'moral hazard' that the creditor nations are concerned about in refusing to cancel debts must be challenged by the 'moral illegitimacy' of the debt overhang that kills all development, and is the principal cause of perpetuating poverty in the South.

A careful analysis of the origin and character of the debt would show that there are seven categories of 'debts' that do not even qualify as debts. These are:

- i) odious debts (incurred by previous regimes in violation of human rights);
- ii) honorific debts (incurred in fulfilment of UN resolutions);
- iii) fraudulent debts (often even criminal);
- iv) illegitimate debts (for fake experts and consultants and fake projects);
- v) debts unilaterally hiked by the lenders through interest rate and foreign exchange manipulations;



- vi) fictitious debts (those without corresponding transfer of real assets to the South);
- vii) Washington Consensus debts (debts incurred because the World Bank/International Monetary Fund misled developing countries. These debts should be laid at their doorstep).

We made six recommendations on how to move forward on the debt issue. These are:

i) The United Nations Development Programme should help develop a methodology to conceptualise and measure inadmissible debts, much in the way it has developed a methodology to measure welfare for its annual Human Development Reports. This is basically a conceptual and statistical exercise and should be quite easy. At a rough guess, I would argue that the current over US\$3 trillion debt would come down to a few hundred million dollars of legitimate debt. These latter sums should be paid. The rest should be cancelled automatically, because they do not qualify as 'debt' in any case.

ii) The United Nations should insist on the implementation of its resolutions which deal with issues of human rights, development and social welfare, and link these with the debt issue. It should take its own responsibilities seriously and assume some of the debts incurred by debtor countries in pursuance of UN resolutions. These 'debts' do not belong to the debtor nations; they belong to the international community.

iii) In the same manner, the World Bank/International Monetary Fund and other international financial institutions should take responsibility for debts incurred as a result of their misleading developing countries and putting them on a false road to development such as through the Washington Consensus. There should be a way of measuring the international financial institutions' debt to developing countries.

iv) The Highly Indebted Poor Country Initiative should neither be extended to other countries nor deepened in the countries in which it is operational. It should simply be scrapped. It adds insult to injury. It is a cheap and rather cynical trick to create the illusion that 'something' is being done for 'the poor' of the world. The resolution of the Jubilee Campaign of the Latin American and Caribbean countries, passed at Tegucigalpa in January 1999, and of the Jubilee South at Johannesburg in June 1999, unreservedly rejected the Highly Indebted Poor Country Initiatives as a means of perpetuating debt and not a solution.

v) The negotiating fora in which debts are discussed or negotiated should move away from the Paris consortium or any other creditor-controlled institutions such as the World Bank/International Monetary Fund. Let the United Nations set up a special body where the issues are negotiated.

vi) The debtor governments should form regional or multinational consortia to refuse to pay inadmissible debts. In this they will be supported by their populations provided they are transparent in exposing all illegitimate or fraudulent debts, and provided they are accountable to the people. They should, however, pay the debts that have been legitimately incurred, and that have resulted in actual transfer of net assets from North to South.