

AFRICA'S DEBT

Africa's debt burdens, says Jesse Jackson, "are the new economy's chains of slavery" (*Los Angeles Times*, 9/29/98). The All Africa Conference of Churches, which groups more than 150 denominations from around the continent, calls the debt "a new form of slavery as vicious as the slave trade." The imagery invoking these historical crimes against Africa is powerful. Yet it is still hard for many of us to see the connections between human suffering and the seemingly impersonal workings of the international economy.

Nevertheless, the comparison with the slave trade is more than a dramatic metaphor. Historical studies such as Joseph Miller's *Way of Death*, recounting the Angolan slave trade, remind us that debt was one of the driving forces behind the deadly commerce. Trade goods supplied on credit, including guns, had to be paid for. Often the only profitable commodity accepted in return was human beings. Intermediaries in the trade — coastal merchants, chiefs, ship owners, plantation owners — were enmeshed in a chain of debt. At the far end were financiers in distant European capitals, remote from the human cost of paying these debts.

Similarly, when debt repayment is considered exclusively in economic terms, other consequences are ignored. Africa's debt is so large in comparison to the continent's income that it cannot be repaid. But as long as it is not cancelled, the constant pressure to pay it off is unrelenting. "Must we starve our children to pay our debts?" asks former Tanzanian President Julius Nyerere. When debt payments come first, with

macro-economic adjustment policies imposed by creditors, health and education budgets are squeezed to the bone. So are other long-term investments necessary for development. Most ominously, international efforts to address the debt burden offer no exit strategy for most indebted African countries.

Among churches, non-governmental organizations and many governments, an international consensus is building in favor of massive and dramatic debt cancellation, as an indispensable step for addressing Africa's other problems. Without such action, prospects for economic growth as well as human development will be crippled. Yet international financial institutions and developed country governments are still trying to resist this conclusion.

How much is too much?

Debt, of course, is not Africa's only problem. Nor are all countries in the same situation. But 33 of the 41 countries identified by the World Bank as "Heavily Indebted Poor Countries" (HIPC) are in Africa. Even North African countries, none of which is labelled a HIPC country, are using almost one-fourth of export earnings to pay off debts.

How much debt is too much? For an individual, debt is financially "unsustainable" when it is impossible to keep up with the payments. Debt is morally "unsustainable" when keeping up with payments takes money away from the basic necessities of life. A business is "dangerously overextended" when paying off its debt rules out making investments to keep the business competitive in the future. The solution provided by law for extreme cases is bankruptcy. Indi-

viduals or businesses are given the opportunity to start again with a clean slate.

In all these cases, the criteria are not the size of the debt as such, but how it compares to available income and the choices that must be made to pay it off. When one's creditors are in charge and making those decisions, that is debt bondage. Economic history provides many examples, from the farmer whose entire crop is obligated to pay off the bank to the mineworker deeply in debt to the company store.

African countries owing money to foreign creditors, including banks, governments and multilateral institutions, can only pay off the debt with foreign currency. That is, they must use money from exports, from aid, or from new foreign loans. Ethiopia's debt of \$10 billion (\$179 a person) at the end of 1996 may not seem like much compared, for example, to the \$11 billion Europe spent on ice cream in 1997. But it was almost *thirteen times* the amount the country earned in exports in 1996. That year, Ethiopia used the equivalent of 44 percent of its \$783 million in export earnings on debt payments. Even after such a crushing payout, Ethiopia's debt is still unbearable.

Or consider the trade-offs with investments in health care. In 1998, seventy percent of the world's new HIV infections were in sub-Saharan Africa. So

Africa's Debt Compared to What? Debt refers to total owed to foreign creditors at end of year; debt service refers to total paid back during the year (both principal and interest). All figures over \$10 billion (B) rounded to nearest billion ■ \$110B—increase in military spending sought by President Clinton for 2000-2005 ■ \$96B—total debt, N. Africa 1996 ■ \$80B—total debt W. Africa 1996 ■ \$58B—Bill Gates' personal fortune, 1998 ■ \$45B—total debt, E. Africa 1996 ■ \$45B—authorized by Congress for 21 B-2 Bombers, FY 97 ■ \$42B—total debt, Southern Africa 1996 (excluding South Africa) ■



were four-fifths of all deaths from AIDS that year. Yet among all African countries only South Africa is spending more on health care than on debt service. For most African countries, the entire annual health budget is less than \$10 a person. Health care, moreover, is only one of the urgent needs requiring investment.

Development aid, which has been in steep decline in recent years, does not make up the gap. In 1996, sub-Saharan African countries were paying out \$1.30 on debt service for every \$1 received in grant aid from donors.

The causes of debt

There are many reasons for the debt crisis, both political and economic. During the Cold War, corrupt African leaders were often able to gain financing from major powers anxious to retain their loyalty. The creditors received what they paid for — support in the Cold War. Yet the debt burden remained for future generations to pay. In its last 15 years of defending white-minority rule, the apartheid regime in South Africa accumulated more than \$18 billion in debt, while its regional war forced its neighbors to incur more than \$26 billion in debt. Yet investors say “responsibility” in paying these debts must take priority over redressing racial inequalities and rebuilding from war.

In the 1960s and 1970s, international lenders readily pushed a high volume of loans on many African states. Neither the lenders nor the borrowers anticipated how high the cost of repayment would rise. For African countries with agricultural exports, both unpredictable prices and natural disasters increased vulnerability to debt, just as for farmers anywhere in the world. World oil price hikes in 1972 and 1979 dramatically raised the cost of imports. Even countries that

CAMEROON: DEBT AND ENVIRONMENT

Cameroon, a country of 14 million people on the western edge of central Africa, has a rich variety of natural resources, including timber, oil and agricultural land used for cocoa, coffee, tobacco, cotton, bananas and other tropical crops. In the early 1980s, according to the World Bank, Cameroon was one of Africa's economic success stories, buoyed by expanding oil exports, averaging 5 percent growth a year and reaching a per capita income level of \$1,100.

Then came sharp declines in coffee, cocoa and oil prices, combined with reduced oil output, and the bubble burst. By 1993, per capita gross domestic product had declined by 50 percent. In 1994, the country was reclassified by the World Bank from “middle-income” to “low-income.” The government reduced basic health and education funding. Small farmers were particularly affected by the decline. The urban population expanded far beyond the economic and physical infrastructure available, reaching 46% of the total population by 1997.

The regime of President Paul Biya, in power since 1982, became increasingly unpopular. But his party stayed on through successive elections — the most recent in 1997 — criticized as unfair by opposition and human rights groups. Cameroon's leading journalist, Pius Njawe, spent most of 1998 in prison under charges of “spreading false news.”

Critics also noted the lack of public information on the spending of oil income and in allotment of logging contracts to foreign companies. In the fall of 1998, two months after

announcement of a new budget amidst promises that the economic crisis was nearing an end, the government informed civil servants that it could not pay the \$113 million in back wages due them.

Cameroon's total external debt came to \$9.5 billion at the end of 1996, as compared to a gross national product of \$8.4 billion and exports of \$1.7 billion. The country spent over 30% of its export earnings

Cameroon

on debt in 1996. Such high pressure to pay the debt provides a powerful disincentive to environmental goals such as protecting the country's valuable rainforests and ensuring that oil projects do not have negative environmental effects.

Cameroon would seem to be an ideal case for linking debt cancellation to measures promoting transparency in government finances and protection for the environment. Instead, despite protests from Cameroonian and international environmental groups, Exxon, Shell and the French oil company ELF are moving ahead with a \$3.5 billion project for a 600-mile pipeline from oil fields in southern Chad through the Cameroonian rainforest, along with offshore storage and off-loading facilities. They expect to gain over \$300 million in support for the project from the World Bank. (For more details, see the Environmental Defense Fund report at www.edf.org/pubs/Reports and the letter to the World Bank from non-governmental organizations at www.africapolicy.org/docs98/wb9807.htm).

exported oil and other minerals faced boom and bust cycles that raised the odds of incurring unsustainable debt. When interest rates skyrocketed in the 1980s, interest payments jumped. Trying to pay off more debt with less income allowed unpaid debt to mushroom. With all these factors at work, the impact of every additional mistake in economic policy was multiplied.

The HIPC Initiative

In 1996 the World Bank, the International Monetary Fund, and major creditor nations recognized the seriousness of the crisis by launching the HIPC (Heavily Indebted Poor Countries) initiative. The initiative was a significant step in that it recognized the impossibility of resolving the crisis just by postponing payments (“rescheduling”).

\$388—US share of cocaine trade in 1995 ■ \$36B—total debt, Central Africa 1996 ■ \$30B—European allies' debt to US for WWII loans, currently not being paid ■ \$27B—debt service, total Africa 1990-1996 average ■ \$25B—sales of small arms approved for export from US, FY 97 ■ \$24B—total debt, South Africa 1996 ■ \$23B—IMF bailout package for Russia in Sept. 1998 ■ \$20B—total debt, Côte d'Ivoire 1996 ■ \$13B—Harvard University endowment, 1998 ■ \$13B—debt service, Sub-Saharan Africa 1996 ■ \$13B—British debt to US in WWII loans, currently not being paid ■ \$12B—US spending each year on soft drinks, est. 1997



ZAMBIA'S EXTERNAL DEBT: **Zambian Churches Speak**

"As we are all aware, Zambia suffers heavily under an immense burden of external debt. Over US\$ 7.1 billion is owed to donor countries and to international financial institutions such as the World Bank and the IMF. That amounts to a debt of almost US\$ 750 for every woman, man and child in Zambia!

We owe such a huge amount of money as debt for a variety of reasons. Our government borrowed heavily in the 1970s when copper prices went down and petrol prices went up. Our economy was hit hard by these external factors. There were also internal factors influencing the accumulation of debt, such as mistakes and mismanagement. And interest had to be paid back on the loans that we received.

In a word, simply trying to pay the interest and retire some of the capital each year has become a tremendous burden for Zambia. For example, in this year's government budget, more money is spent on debt servicing than on all education and health expenditures combined. In a country where 70% of the population lives below the poverty line the fact that money is spent on debt service instead of meeting the needs of the people has tragic consequences. But what about efforts at debt relief?

We leaders of the Christian community in Zambia welcome the efforts of our government, many NGOs and church groups in this country and elsewhere, and concerned people around the world, to work for the reduction of our external debt.

Zambia's total debt is clearly unpayable. Zambia cannot pay back because the debt burden is economically exhausting. It blocks future

Zambia

development. Zambia will not pay back because the debt burden is politically destabilising. It threatens social harmony. Zambia should not pay back because the debt burden is ethically unacceptable. It hurts the poorest in our midst. Has there been any Christian response?

For these reasons, then, we write this joint letter addressed to the members of our various Christian congregations in Zambia, and indeed to all Zambians of good will, to encourage positive and effective action to reduce our external debt. To this end, we:

1. Call upon the government to inform the citizenry about the actual debt situation of the country and about debt relief negotiations that are underway.
2. Call upon the members of the churches of our three bodies (CCZ, EFZ, ZEC) to join the Jubilee 2000 campaign by signing the petition calling for cancellation of Zambia's debts.
3. Call upon our friends in the international community (sister and brother churches, and all concerned persons) to lobby for equitable and effective debt relief. We are already deeply grateful for the support received so far in this effort.

But we do wish to make three very important points regarding this campaign for debt relief for Zambia.

First, we are not asking for debt 'forgiveness'. To receive 'forgiveness' is to acknowledge guilt. But Zambia has been, with considerable diligence and sacrifice, meeting its debt service. Our incurring of debt has not primarily been our fault, and hence 'forgiveness' is not the proper word to use. Rather we ask for 'cancellation' of an unpayable burden that is harming our people very much. It is

not charity that we are seeking, but justice!

Second, we recognise that Zambia must be responsible in the use of any monies made available through debt relief. For this reason we will hold the government accountable, and cooperate with government officials and civil society organisations to monitor the use of the money freed up if and when debt is canceled. We want to ensure that the newly available resources really do contribute to meeting the social and productive needs of the country.

Third, we know that if Zambia is to move forward, honest and hard work is demanded of all of us. The experience of 'jubilee' in the canceling of debt can be for us a new start, a fresh beginning, only if we commit ourselves to the culture of responsibility and accountability, and involve ourselves with dedication and sacrifice in working for the future of our children. It is here that the churches must give the best example, so that not simply in words but in deeds we will have a true 'jubilee!'

Excerpted from a statement by Rev. Violet Sampa-bredt, General Secretary, Christian Council of Zambia; Rev. Thomas Lumba, Executive Director, Evangelical Fellowship of Zambia; Fr. Ignatius Mwebe, Secretary General, Zambia Episcopal Conference, on 7th August, 1998, on behalf of The Ecumenical Steering Committee for Jubilee 2000-Zambia, c/o Catholic Commission for Justice and Peace, PO Box 31965, Lusaka, Zambia. J2000 contact: Peter Henriot, S.J., Jesuit Centre for Theological Reflection, P.O. Box 37774, 10101 Lusaka, Zambia; Tel: 260-1-250-603; Fax: 260-1-250-156; e-mail: phenriot@zamnet.zm.

Some debt, creditors acknowledged, would have to be cancelled, including debt owed to the multilateral institutions themselves (almost one-third of Africa's debt). Creditors agreed that, in principle, as much as 80 percent of external debt could be cancelled.

The unanswered questions, however, were under what conditions,

how much, how fast and who would pay for it. Typically, the international financial institutions imposed rigid economic adjustment programs as a condition for participation in HIPC. By September 1998, only eight countries, including five in Africa, had qualified for debt relief packages adding up to about \$6.5 billion. Uganda

was the only African country that had actually reached the "completion point," receiving about \$650 million in debt reduction. To supplement World Bank and IMF funds, 15 donor countries (not including the U.S.) had paid or pledged about \$300 million for the initiative by late 1998.

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■ \$11B—debt service, Sub-Saharan Africa 1990-1996 average ■ \$11B—annual ice cream consumption in Europe, est. 1997 ■ \$10B—international defense loans written off by US since 1990 ■ \$9.5B—total debt, Cameroon 1996 ■ \$8B—annual spending on cosmetics in US, est. 1997 ■ \$8B—US government subsidies for weapons exports in 1996 ■ \$7.9B—decrease in development aid by donor countries between 1996 and 1997 ■ \$6.6B—Clinton proposal to build first stage of Reagan's "Star Wars" anti-missile system ■ \$6.4B—amount of Poland's debt written off by commercial banks in 1994 ■



Africa's Debt in Numbers

At the beginning of 1996*, the total foreign debt owed by sub-Saharan Africa (excluding South Africa) added up to \$208.3 billion, almost four times their 1996 export income.

In other words, even if every dollar of export earnings was taken to pay off the debt, it would take four years to pay it off. In fact, these countries used about one-fifth of their export income for debt service in 1996, including payment of interest and principal. At the end of the year they still owed \$203.5 billion. The continent as a whole did not do much better, paying out 19% of export earnings for debt in 1996, and lowering its debt from \$329.5 billion to \$323.4 billion.

That same year, according to U.S. Census Bureau statistics, the median income of U.S. households was \$36,306. If that median household carried a debt burden comparable to those of most African countries, it would be carrying over \$140,000 in debt. In fact, the average household consumer debt (including automobile loans) was about \$8,600.

* The year used for comparisons in this table and charts is 1996, the latest year for which comparable statistics were available for almost all countries in late 1998 (from the most recent World Bank *World Development Indicators on CD-ROM*). Later preliminary data (for 1997) are available in the World Bank's *Global Development Finance 1998: Analysis and Summary Tables*.

Regions & Countries	Total external debt (current US\$, in millions)	GNP at market prices (current US\$, in millions)	Exports (current US\$, in millions)	Total debt service (current US\$, in millions)	Ratio of total external debt to GNP	Ratio of total external debt to exports	Debt service as percent of exports
WEST AFRICA							
Benin	1,594	2,167	544	43	0.7	2.9	7.9%
Burkina Faso	1,294	2,527	294	49	0.5	4.4	16.5%
Cape Verde	211	419	101	6	0.5	2.1	5.8%
Cote d'Ivoire	19,713	9,795	4,763	1,347	2.0	4.1	28.3%
Gambia, The	452	—	—	29	—	—	—
Ghana	6,202	6,203	1,728	470	1.0	3.6	27.2%
Guinea	3,240	3,785	749	114	0.9	4.3	15.2%
Guinea-Bissau	937	266	29	11	3.5	32.9	39.3%
Liberia	2,107	—	—	2	—	—	—
Mali	3,020	2,597	553	116	1.2	5.5	21.0%
Mauritania	2,363	1,038	587	121	2.3	4.0	20.6%
Niger	1,557	1,958	314	57	0.8	5.0	18.1%
Nigeria	31,407	31,125	5,409	2,509	1.0	5.8	46.4%
Senegal	3,663	5,025	1,587	274	0.7	2.3	17.2%
Sierra Leone	1,167	922	111	59	1.3	10.5	53.2%
Togo	1,463	1,388	439	56	1.1	3.3	12.8%
WEST AFRICA	80,390	69,216	17,207	5,260	1.2	4.6	30.4%
CENTRAL AFRICA							
Burundi	1,127	1,123	50	31	1	22.5	60.9%
Cameroon	9,515	8,437	1,721	528	1.1	5.5	30.7%
Central African Republic	928	1,038	201	13	0.9	4.6	6.4%
Chad	997	1,133	325	30	0.9	3.1	9.3%
Congo, Dem. Rep.	12,826	6,050	2,425	48	2.1	5.3	2.0%
Congo, Rep.	5,240	1,878	1,599	339	2.8	3.3	21.2%
Equatorial Guinea	283	242	189	5	1.2	1.5	2.4%
Gabon	4,213	4,823	3,398	378	0.9	1.2	11.1%
Rwanda	1,034	1,317	81	19	0.8	12.7	22.9%
Sao Tome and Principe	261	—	—	3	—	—	—
CENTRAL AFRICA	36,424	26,041	9,991	1,392	1.4	3.6	13.9%
EAST AFRICA							
Comoros	206	230	42	2	0.9	4.9	3.6%
Djibouti	241	—	200	11	—	1.2	5.4%
Eritrea	46	—	—	—	—	—	—
Ethiopia	10,077	5,950	783	348	1.7	12.9	44.4%
Kenya	6,893	8,966	3,043	840	0.8	2.3	27.6%
Madagascar	4,175	3,986	753	76	1.0	5.5	10.1%
Seychelles	148	514	261	15	0.3	0.6	5.9%
Somalia	2,643	—	—	4	—	—	—
Sudan	16,972	—	—	48	—	—	—
Uganda	3,674	6,069	725	150	0.6	5.1	20.6%
EAST AFRICA	45,075	25,715	5,807	1,492	1.8	7.8	25.7%

West Africa's Debt

1995 Year End Total External Debt: \$82.0 Billion

1996 Year End Total External Debt: \$80.4 Billion

1996 Exports: \$17.2 Billion

1996 Total Debt Service: \$5.3 Billion

In 1996 West African countries paid over \$5 billion on their \$82 billion foreign debt, 30% of what they earned from exports. But at the end of the year they still owed \$80.4 billion.

Central Africa's Debt

1995 Year End Total External Debt: \$37.5 Billion

1996 Year End Total External Debt: \$36.4 Billion

1996 Exports: \$10 Billion

1996 Total Debt Service: \$1.4 Billion

In 1996 Central African countries paid \$1.4 billion on their \$37.5 billion foreign debt, 14% of what they earned from exports. But at the end of the year they still owed \$36.4 billion.

East Africa's Debt

1995 Year End Total External Debt: \$46.5 Billion

1996 Year End Total External Debt: \$45.1 Billion

1996 Exports: \$8.4 Billion

1996 Total Debt Service: \$1.5 Billion

In 1996 East African countries paid \$1.5 billion on their \$46.5 billion foreign debt, 14% of what they earned from exports. But at the end of the year they still owed \$45.1 billion.

Africa's Debt

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Regions & Countries	Total external debt (current US\$, in millions)	GNP at market prices (current US\$, in millions)	Exports (current US\$, in millions)	Total debt service (current US\$, in millions)	Ratio of total external debt to GNP	Ratio of total external debt to exports	Debt service as percent of exports
SOUTHERN AFRICA							
Angola	10,612	3,454	5,201	694	3.1	2.0	13.3%
Botswana	613	4,760	2,526	150	0.1	0.2	5.9%
Lesotho	654	1,235	195	36	0.5	3.3	18.6%
Malawi	2,312	2,157	470	89	1.1	4.9	18.8%
Mauritius	1,818	4,241	2,622	198	0.4	0.7	7.5%
Mozambique	5,842	1,543	473	175	3.8	12.4	36.9%
Namibia	—	3,327	1,591	—	—	—	—
South Africa	23,590	123,431	33,420	3,782	0.2	0.7	11.3%
Swaziland	220	1,037	901	33	0.2	0.2	3.7%
Tanzania	7,412	5,714	1,255	258	1.3	5.9	20.6%
Zambia	7,113	3,294	1,301	324	2.2	5.5	24.9%
Zimbabwe	5,005	7,227	3,110	664	0.7	1.6	21.4%
SOUTHERN AFRICA	65,189	161,421	53,064	6,403	0.4	1.2	12.1%
SOUTHERN AFRICA (without South Africa)	41,599	34,662	18,054	2,621	1.2	2.3	14.5%

NORTH AFRICA

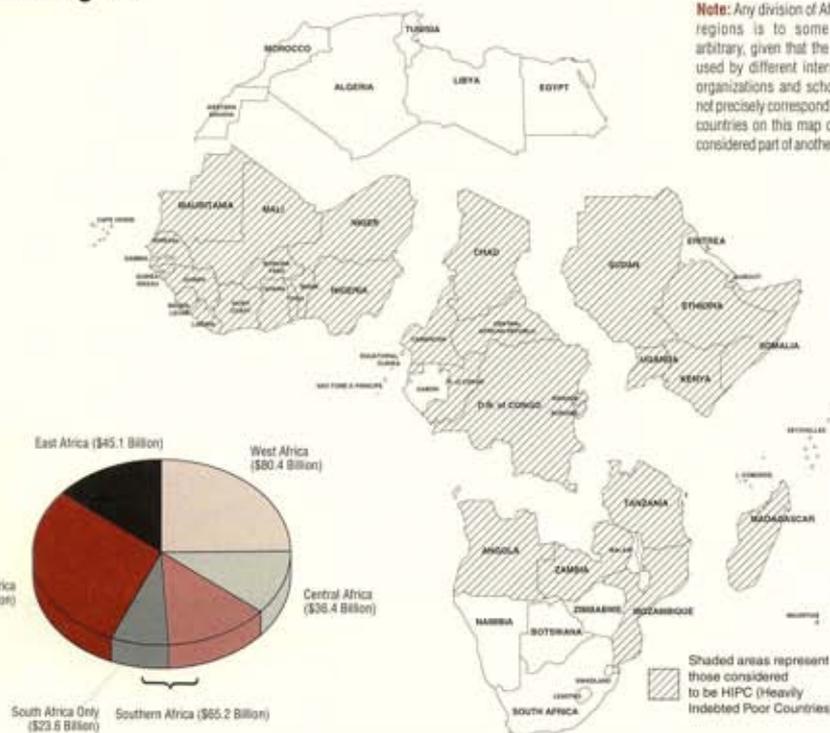
Algeria	33,260	43,349	14,450	4,215	0.8	2.3	29.2%
Egypt, Arab Rep.	31,407	67,850	13,912	2,309	0.5	2.3	16.6%
Libya	—	—	—	—	—	—	—
Morocco	21,767	35,609	9,259	3,174	0.6	2.4	34.3%
Tunisia	9,887	18,459	8,252	1,479	0.5	1.2	17.9%
NORTH AFRICA	96,320	165,267	45,872	11,177	0.6	2.1	24.4%

No data available for Libya, Western Sahara

FOR COMPARISON

Sub-Saharan Africa	227,078	282,393	86,068	14,548	0.8	2.6	16.9%
Sub-Saharan Africa (without South Africa)	203,488	158,962	52,648	10,766	1.3	3.9	20.4%
All Africa	323,398	447,660	131,940	25,724	0.7	2.5	19%
Russia	124,785	432,384	106,682	7,002	0.3	1.2	7%
Thailand	90,824	90,818	75,835	8,652	1.0	1.2	11%
Mexico	157,125	148,458	115,156	40,786	1.1	1.4	35%

Africa's Regions



Note: Any division of Africa into regions is to some extent arbitrary, given that the regions used by different international organizations and scholars do not precisely correspond. Several countries on this map could be considered part of another region.

Southern Africa's Debt

1995 Year End Total External Debt: \$64.5 Billion

1996 Year End Total External Debt: \$65.2 Billion

1996 Exports: \$53.1 Billion

1996 Total Debt Service: \$6.4 Billion

In 1996 Southern African countries paid \$6.4 billion on their \$64.5 billion foreign debt, 12% of what they earned from exports. But at the end of the year they still owed \$65.2 billion.

Southern Africa's Debt (without South Africa)

1995 Year End Total External Debt: \$42.2 Billion

1996 Year End Total External Debt: \$41.6 Billion

1996 Exports: \$18.1 Billion

1996 Total Debt Service: \$2.6 Billion

In 1996 Southern African countries (without South Africa) paid \$2.6 billion on their \$42.2 billion foreign debt, 15% of what they earned from exports. But at the end of the year they still owed \$41.6 billion.

North Africa's Debt

1995 Year End Total External Debt: \$99.0 Billion

1996 Year End Total External Debt: \$96.3 Billion

1996 Exports: \$45.9 Billion

1996 Total Debt Service: \$11.2 Billion

In 1996 North African countries paid \$11.2 billion on their \$99 billion foreign debt, 24% of what they earned from exports. But at the end of the year they still owed \$96.3 billion.

Notes:

Published estimates of debt indicators often vary, since they are compiled from different sources released at different times and "adjusted" in different ways for different purposes. The key indicators on this page are:

Total external debt: debt owed at the end of the year. Some other analyses use the "present value" of debt, which subtracts debt that is "concessional" (below market rate).

GNP (gross national product): total value of goods and services produced by residents. It is different from GDP (gross domestic product) in that GNP does not include income of non-resident producers (such as foreign companies).

Exports of goods and services: income from overseas sales. It is most often the figure compared to debt since only that income (in hard currency) can be used to pay off external debts. Income in local currencies cannot be used to pay off these debts.

Debt service: total paid, on both principal and interest, during a given year.

The ratios of debt to GNP and to exports are given as ratios, generally greater than one. They should be read as 3.3 to 1, etc. The ratio of debt service to exports is given instead as a percent.



GHANA: DEBT OVERHANG A DRAG ON DEVELOPMENT

Lauded by the World Bank for its commitment to economic reform, Ghana was also one of the "success stories" chosen for President Clinton's visit in March 1998. Accompanied by top business executives, Clinton spoke of building a new partnership between the U.S. and Ghana, one of the choice destinations in West Africa for foreign investment and trade. Ghana is one of the few African countries to have its own domestic stock market, and it has been hailed by international investors as a "new gateway to Africa". Even strong critics of Ghana's structural adjustment program have recognized the country's relative economic success compared to many other African countries.

Nevertheless, Ghana's 1996 gross national product of \$6.2 billion was almost precisely matched by its total external debt that same year. International financial institutions called the debt "sustainable" and said it would not need debt relief under the HIPC initiative. In fact, the debt overhang demonstrated the country's continued vulnerability and undermined prospects for expanded economic growth.

Despite Ghana's relative success in building domestic industry, it has inadequate and aging infrastructure. With the Akosombo dam hydroelectric project reeling under the impact of drought, recurrent power outages threaten the climate for foreign investment. Yet with 27% of export earnings going to debt service payments, funds for investments in domestic infrastructure are in short supply.

Ghana has been quite successful at diversifying its exports. Its export income from nontraditional commodities such as pineapples, cashews, pepper and frozen fish rose from \$28 million in 1987 to \$276 million in 1996 (18% of export income).

That same year, however, 77% of Ghana's export income still came from cocoa (32%) and gold (45%). In the past, fluctuating world market prices for cocoa have savaged development prospects. In 1980, one metric ton of cocoa sold for \$3,616. In 1992, a ton sold for \$1,032. The drop helped catapult Ghana's foreign debt

from only 31.6% of GNP in 1980 to 99.9% of GNP in 1996. In late 1998, the price of one ton of cocoa was close to \$1,600, and predicted to remain stable or rise. But Ghana's sales prospects might also be eroded by lowercost Asian cocoa producers and by biotechnology research in substitutes for natural cocoa.

Recent expansion of gold production has lifted Ghana to rank as the world's 11th largest producer of gold. In 1996 the country's leading gold producer, Ashanti Goldfields, became the first African company to be listed on the New York Stock Exchange. But gold is also a commodity subject to price swings, which has dropped from \$375 an ounce in 1996 to lows of under \$300 an ounce in 1998.

Ghana has not earned enough on exports to pay for all its imports — capital equipment, oil, consumer goods and foods — since 1982. The trade deficit has continued to grow, from a

modest \$18 million in 1983 to \$528 million in 1990 to \$668 million in 1996. Compared to most other African countries, Ghana's industrial base is actually somewhat advanced, including mining, light manufacturing, aluminum and food processing. In its efforts to become less reliant on foreign imports, Ghana has recently added some import-substitution industries, such as textiles, steel, tires, flour milling and others. It is attracting over \$100 million of net new foreign investment a year. But with a trade deficit and such a large debt outstanding, the debt continues to grow.

Two-thirds of Ghana's foreign debt is owed to multilateral institutions, such as the World Bank and the International Monetary Fund. Nearly all of its debt service payments (\$471 million in 1996) are financed by new debts, grants, and sales of public companies. A third of Ghana's population lives below the poverty line. Meanwhile, the government is spending \$27 per person just to meet the annual payments. Investments in health (about \$4 a year per person) and education (about \$9.50 a year per person) have suffered the consequences.

Ghana has proclaimed the goal for the year 2020 of becoming a middle-income country where all Ghanaians experience the benefits of an improved quality of life. Achieving that goal is unlikely as long as debt takes priority over investing in the country's future.

Ghana

Continued from page 3

These sums don't even come close to meeting African needs for debt cancellation. The paltry results strengthened the case of debt campaigners arguing that only massive debt cancellation could have a significant effect. The HIPC costs also look small in comparison to the \$23 billion bailout package the IMF arranged for Russia in September 1998 or the \$3.6 billion banks came up with to rescue the speculative Long-

Term Capital Management Fund that same month.

From debt to sustainability

To decide which countries are eligible for debt relief under HIPC, and to evaluate how much needs to be done, international agencies calculate ratios of debt to exports and of debt service to exports. Debt is normally considered "sustainable" if its discounted value (the total reduced by whatever portion is only being

paid at lower-than-market rates) is less than two to two-and-a-half times annual exports, and if the payments on principal and interest ("debt service") are in the range of 20 to 25 percent of exports. These calculations are intended to estimate the maximum debt that the country is capable of carrying without falling behind on its payments.

These criteria only take into account what is practical in terms of paying back the loans, and do not consider the broader economic or hu-

\$6.2B—total debt, Ghana 1996 ■ \$6.1B—Bilateral debt of 33 HIPC African countries to the US, August 1998 ■ \$6B—total debt, Mozambique 1996 ■ \$5.9B—free shopping coupons given to Japanese consumers as part of 1998 economic stimulus package ■ \$5B—debt service, W. Africa 1990-1996 average ■ \$4.5B—average wealth per person of 225 richest people in the world, 1997 ■ \$3.9B—budget overrun on NASA space station, as of 1998 ■ \$3.8B—debt service, Southern Africa 1990-1996 average ■ \$3.7B—total debt, Senegal 1996 ■ \$3.6B—Sept. 1998 bailout of LTCM, a hedge fund for rich investors ■



MOZAMBIQUE: DEBT RELIEF PACKAGE FALLS SHORT

At the end of 1996, Mozambique owed \$5.8 billion in debt to foreign creditors, more than 12 times the country's annual income from exports. That year debt payments ate up more than one-third of export earnings. Mozambique paid \$10 per person just to service its debts, twice the estimated \$5 per person the country could afford for public health.

Mozambique

These shocking statistics — plus Mozambique's good reputation with the World Bank and other lenders — made the southern African nation one of the first to win a decision to cancel some of its debts under the HIPC initiative. If Mozambique remains on the path outlined by HIPC, its debt will be reduced by almost \$3 billion.

Despite the initiative, Mozambicans and international debt campaigners say that the cancellation still falls so far short of what is needed that it is a "cruel hoax." Under the plan, Mozambique will still be paying close to \$100 million a year in debt service, and the education ministry will still have to postpone compulsory primary education until the year 2010. The UN estimates that it could save the lives of some 115,000 children each year, if only half of the annual debt payments were allocated to health and education services instead.

Critics of the HIPC initiative argue that it only brings the debt down to the maximum that creditors can squeeze from poor countries. Even with the IMF's optimistic estimates of "sustainable" export earnings, Mozambique would still have to pay three times the 3.5% ratio the World War II allies considered "sustainable" for Germany in 1953. Why should Mozambique, which needs all it can free up for investment in schools, clinics and economic infrastructure, be able to "sustain" debt paybacks far higher than Germany was able to sustain in the 1950s?

In September 1998 Mozambican President Joaquim Chissano called for the "total scrapping" of debt accrued by developing countries. The economic case for cancellation, President Chissano explained, is that "there is no way we can repay our debt and still make our economies competitive."

There is also a powerful moral case for cancelling Mozambique's debt. At independence, in 1975, Portuguese colonialism left an enormous legacy of underdevelopment, with illiteracy rates for Africans exceeding 90%. Mozambique's economy depended on migrant labor and transport links for its two white-minority ruled neighbors: Rhodesia (now Zimbabwe) and apartheid South Africa. In the 1980s, the war backed by the apartheid regime caused an estimated \$20 billion in damages and destroyed more than half the health posts and schools built by the newly independent government.

The economic and social trauma was easily comparable to that of World War II in continental Europe. Indeed, consciousness of Mozambique's "post-conflict" situation after the 1992 peace settlement is one reason why some creditors "topped up" earlier offers to implement the current debt relief plan. The bottom line, however, is that it is not enough.

In December 1998, after a special parliamentary conference on debt, both government and opposition parties in Mozambique's parliament issued a unanimous call for "total and unconditional cancellation" of foreign debt. Just before the conference, the parliament learned of previously unreleased HIPC conditions, such as a requirement that the government increase health service charges to the Mozambican public to five times their previous level. With conditions such as these, the HIPC "solution" is definitely not sustainable.

payments to the U.S. were capped at a 4 percent debt-service-to-export ratio, and in 1953 defeated Germany was allowed to limit its payments to only 3.5 percent.

The decision whether to cancel debt and how much debt to cancel is as much political as economic. In the 1960s Western countries capped Indonesia's repayments at 6 percent to reward the Suharto regime for the overthrow of its leftist predecessor. After the 1991 Gulf War, the U.S. forgave \$7 billion in military debts owed by Egypt. Rolling back Africa's current debt would not be an impossible burden for creditors, who have taken losses in other parts of the world in the past by writing off unpayable debts at deep discounts.

The argument that such write-offs would foster financial irresponsibility by debtors does not hold up. On the contrary, they are necessary for countries to take responsibility for the use of future resources. The conditions of debt cancellation should be determined with the participation of civil society and elected governments in the affected states rather than imposed unilaterally by the lenders. The terms should be exposed to public scrutiny both in debtor and creditor countries. With open debate, it is possible to build in protection against corruption and guarantees that funds freed up will be used for productive purposes.

If the political will is there, the details can be worked out. First of all, however, the political pressure to act must grow. As the *Washington Post* noted in an editorial in early 1998, action on African debt relief "will be closely watched as a measure of whether the rich world's latest initiative toward Africa is rhetoric or reality." At the end of the year, rhetoric still prevailed over action.

man context. Sustainability, debt campaigners argue, should be defined not in narrow accounting terms, but in terms of what is needed for development. Then countries desperately in

need of capital to invest in their human and physical resources would not have to spend one-third of their income, or even more, in paying back debt. After World War II British re-

\$3.5B—amount US consumers charged per day on credit cards in 1998 holiday season ■ \$2.6B—total debt, Somalia 1996 ■ \$2.5B—amount of Polish debt cancelled by US in 1991 ■ \$2.3B—total debt, Malawi, 1996 ■ \$2.1B—average unit cost of one B-2 Bomber ■ \$1.8B—US military aid to Israel (FY 98) ■ \$1.3B—debt service, E. Africa 1990-1996 average ■ Sources for non-debt figures include New York Times, Washington Post, Nation, Harpers, Forbes, Arms Sales Monitor, Bureau of Economic Analysis, and Census Bureau.



Selected Resources: Groups and Documents

The number of groups working to reduce the debt burden on African countries, including the Jubilee 2000 campaigns and other non-governmental coalitions, is growing rapidly. New reports, statements, and public education resources for different audiences appear frequently. At the time this paper is written, most of the African groups involved do not have web sites, but contact information for groups in addition to those noted below is available on the Jubilee 2000 UK and USA sites. Many groups, but not all, have access to e-mail.

The following are starting points for additional resources, primarily on-line. For additional updated information, see the Africa Policy debt action page (www.africapolicy.org/action/debt.htm).

Organizations with Extensive Information On-Line

European Network on Debt and Development (EURODAD)

<http://www.oneworld.org/eurodad>

rue Dejoncker 46, B-1060

Brussels, Belgium

Tel: 32-2-543-9060; Fax: 32-2-544-0559

E-mail: eurodad@agoranet.be

A coalition of European non-governmental organizations. Web site is a good source both for general background and for role of European countries in particular.

Jubilee 2000/UK

<http://www.jubilee2000uk.org>

P.O. Box 100, London SE1 7RT, UK

Tel: 44-171-401-9999; Fax: 44-171-401-3999

E-mail: mail@jubilee2000uk.org

A coalition of 80 organizations in the UK. Web site includes much analysis and background as well as campaign information.

Jubilee 2000/USA

<http://www.j2000usa.org>

222 East Capitol Street, NE

Washington DC 20003-1036, USA

Tel: 1-202-783-3566; Fax: 1-202-546-4468

E-mail: coord@j2000usa.org

A rapidly growing coalition of US groups. Website and activities focus on grassroots mobilization. A push for legislation is planned for 1999.

Oxfam International

<http://www.oneworld.org/oxfam/policy/papers/papers.htm>

Oxfam International Advocacy Office,

733 15th Street, Suite 340,

Washington DC 20005, USA

Tel: 1-202-393-1246; Fax: 1-202-783-5547

Email: oxfamintdc@igc.apc.org

The Oxfam alliance of ten international aid agencies provides well-researched position papers which call for debt reduction within the context of a broader understanding of development issues.

Other Key International Contacts

Putting Life before Debt

<http://www.cidse.be/debtfinaldebteng.html>

Call for debt cancellation from international coalition of 162 Catholic agencies

Canadian Ecumenical Jubilee Initiative

<http://www.web.net/~jubilee>

Puts debt cancellation in the context of broader issues of economic justice.

Selected Africa Campaigns Contacts

African Forum and Network on Debt and Development (AFRODAD)

P.O. Box MR 38, Marlborough,

Harare, Zimbabwe

Tel: 263-4-702093; Fax: 233-4-702143

E-mail: afrodad@samara.co.zw

Jubilee 2000 Afrika Campaign

c/o Affiong Southey, Campaign Secretariat,

PO Box 1938 Community One,

Tema Greater Accra Region, Ghana;

Tel: 233-21-776678; Fax: 233-27-551939

Or external liaison c/o Jubilee 2000/UK

(afrika@jubilee2000uk.org)

Mozambican Debt Group

Avenida A. Sekou Toure,

1957, C.P. 2223,

Maputo, Mozambique;

Tel: 258-1-430486;

Fax: 258-1-423140

E-mail: divida@zebra.uec.mz

Jubilee 2000 South Africa and Apartheid-Caused Debt Campaign

c/o AIDC

<http://aidc.org.za>

PO Box 1139, Woodstock 7925, South Africa;

Tel: 27-21-6851565/6 or

Fax: 27-21-6851645

E-mail: aidc@iafrica.com

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Uganda Debt Network

P.O. BOX 21509, Kampala, Uganda

E-mail: dua@starcom.co.ug (attn: Uganda Debt Network)

More information on the HIPC Initiative

World Bank HIPC Page

<http://www.worldbank.org/html/extdr/hipc.htm>

IMF Brief HIPC Statement

<http://www.imf.org/external/np/exr/facts/hipc.htm>

IMF HIPC Pamphlet

<http://www.imf.org/external/pubs/ft/pam/pam51/contents.htm>

HIPC in a Nutshell (Eurodad)

<http://www.oneworld.org/eurodad/hipcnut.htm>

Additional copies available at \$4 ea., \$3.20 ea. for 20 or more. Add 15% for postage and handling.



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