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African Civil Society's Statement on Recent Debt Cancellation Proposals

Almost nine years after it was launched in 1996, the Highly Indebted Poor Countries (HIPC) Initiative has failed to provide low income countries a permanent and robust exit from indebtedness. Although the HIPC has delivered more than $48 billion in debt cancellation, no participating country has achieved debt sustainability. Low income countries still owe a total of US$523 million in debt to all creditors. Of this, Africa alone has a debt stock of US$330 billion and still spends US$15 billion every year in debt service to rich countries and the international financial institutions.

Estimates show that at the current rate, most low income countries will fail to meet the Millennium Development Goals by 2015. In 10 out of 14 African HIPC countries, debt service payments still take a larger share of the budget than health services while HIPC graduates such as Mozambique, depend for more than 50 percent of their budgets on donors. As the United Kingdom (UK) Chancellor of the Exchequer, Gordon Brown has said: based on the current rates of progress, the MDGs on child poverty, primary school education and maternal mortality will not be met for 150 years.

We recognize the fact that multilateral debt cancellation is an issue of justice for poor countries. We are also aware that creditor nations and International Financial Institutions (IFIs) need to acknowledge publicly the roles they played in exacerbating indebtedness in poor countries, especially in Africa. Recently several proposals have been put forward to deal with the multilateral debt of the least developed countries. The first proposal, put forward by the UK Chancellor of the Exchequer, Gordon Brown, is for 100 percent debt service cancellation for 10 years. It would initially benefit 20 countries (with the possibility of expanding to cover 65 countries). The proposal would be funded from the revaluation or of-market sale of IMF gold and from bilateral contributions. The second proposal, put forward by the United States (US), would extend 100 percent debt cancellation to all HIPC countries and would involve the use of the International Financial Institutions' (IFIs) own resources and converting outstanding loans into grants. These proposals are and remain just a step towards our call for total Debt cancellation to free financial resources from the burden of debt service to development in all poor countries.

As African Civil society Organizations (CSOs) working on Debt and Economic Justice issues, we welcome these short-term efforts of creditor countries to address the debt crisis as part of their admission that current initiatives are inadequate. However, we feel that both proposals should be more comprehensive and inclusive. For example, both the UK and US proposals are currently limited to only some countries that meet certain criteria and conditions, while the US proposal makes no mention of new additional resources to be committed. A lot of issues still need to be clarified in the proposals, especially what the UK proposal mean by 100% Debt cancellation when it speaks of Debt cancellation that does not go beyond 2015 or ten years. The use of bilateral contributions for multilateral debt payments has the possibility of converting grants into loans and increases the moral hazard for institutional lending. There is also the danger that the proposal of using bilateral contributions could divert resources from official development assistance (ODA) to debt cancellation, when what is needed in debt cancellation is to complement rather than substitute aid. We also note with great concern that both proposals fail to address the imbalance in the relations between creditors and debtors as creditors continue to dominate the decision making process.

Given this scenario, we African civil society organizations working on Debt and Economic Justice issues, we would like to recommend the following:

- 100% multilateral debt cancellation for all poor countries and the need for the provision of additional funding that allow them to meet the MDGs by 2015.
- The required funding should be generated in a three tier manner as outlined below. With each of the three tiers being exhausted before the next one is used:
    - The first source of funding would be the sale of IMF gold, which could mobilize up to US$35 billion. This money could be used for the cancellation of multilateral debt
    - If these resources prove inadequate, additional bilateral contributions of the kind pledged by the UK can be used to make up for the shortfall
    - If additional funds are still needed, a third source of funding of up to US$17.5 billion could be made available through the IDA

- The financing of the debt cancellation should be from new resources without diverting money from existing aid budgets.

- Debt cancellation should not be accompanied by HIPC/PRGF conditionalities as these undermine the autonomy of African countries and force them to implement policies that are inimical to their development. It should also not be used to force concessions out of them that they would otherwise not grant in negotiating forums such as the WTO
- Creditors should respect and use Debtor countries' leadership, institutions and systems in managing aid and where these are weak especially in fragile states, they should work with the Debtor governments to strengthen national systems and capacity to develop, implement and account for its policies and actions to its citizens, parliament and donors.
- Aid should be untied, especially food aid and technical assistance, to allow local capacity to develop. Untying Aid increases aid effectiveness by reducing transaction costs for Debtor countries and improves country ownership and participation.
- Donors should commit themselves to concrete actions, targets and timelines towards the fulfilment of the 0.7 percent ODA as agreed in Monterrey and other platforms. Debt relief should be additional to these targets.
- We also urge developed countries that have not committed themselves to participate in the debt cancellation initiative to do so in order to broaden the resource base from which debtor nations will benefit.

Cancelling Africa's debt should however not be seen in isolation from the broader objective of putting the continent on the path to sustainable growth and development through the creation of a level playing field in the area of global trade. The failure to link Africa's debt crisis to the impact of the predominantly hostile global trading environment under which it has to operate has in most cases resulted in piecemeal measures that end up dealing with the symptoms of the problems and not the causes.

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