Relief Works

African proposals for debt cancellation – and why debt relief works

A report from **Jubilee Research** at the **New Economics Foundation**

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Executive Summary

This report shows that debt relief works. In an exclusive review of newly available data on government budgets in African countries, we show that the debt relief delivered to date has resulted in large increases in spending on education and health in Africa – and no increase in spending on defence.

In particular, we show that, in 10 countries for which data was available:

- In 1998, education spending was only $929m, less than the amount spent on debt service. Today, it is $1306m – more than twice what is being paid to foreign creditors;

- Before debt relief, more than twice as much was being spent on debt service as on health. Since then, spending on health has risen by 70% - and is now one third higher than spending on debt repayments.

- Contrary to the views of our sceptics, debt relief is not being used to fuel military expenditures. In the countries reviewed, we found no increase in military spending as a result of debt relief.

The report also examines the new approach to debt relief proposed by African leaders in the New Partnership for Africa's Development (NEPAD.)

We show that

- In the long run, NEPAD proposes that debt relief should be linked to costed poverty reduction outcomes. If this proposal is to be implemented, **most African countries will require further debt cancellation, totalling $134bn;**

- In the short run, NEPAD proposes that debt service payments should be limited to a certain proportion of fiscal revenues. We argue that these limits should be set to 5% for IDA-only countries and 10% for other countries. Our calculations show that **this, on its own, will require additional debt cancellation of $147bn.**

However, we conclude that the NEPAD criteria should only be used a guideline for providing relief. Ultimately, we argue that debt cancellation should be assessed on a case-by-case basis, taking into account the particular country circumstances, under the Jubilee Framework for international insolvency.

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Introduction

65,000 people are registered to attend the World Summit on Sustainable Development in Johannesburg, South Africa as we go to press in August 2002. At the same time, some 14 million people in Southern Africa face famine and the African people are grappling with one of the worst plagues in history – AIDS/HIV. Yet whilst we write at a time of historically unprecedented levels of wealth in the west, very little support is being given to the African people in their struggle against the twin threats of AIDS and poverty.

The debt relief offered under the G7 HIPC (Heavily Indebted Poor Countries) Initiative has delivered too little, too late[1]. 20 countries in Sub-Saharan Africa, with more than half of the region's people, are poorer now than in 1990 – and 23 countries are poorer than in 1975.[2] Even South Africa, one of the most industrialised countries in Africa and the hosts of the World Summit, has slipped nearly 20 places since 1995 in the Human Development Index compiled annually by the United Nations Development Programme[3].

This report assesses the current state of debt relief offered to Africa and shows how little has actually been cancelled. Deeper debt cancellation is now desperately needed.

At the Genoa G8 Summit last year, President Obasanjo of Nigeria, President Wade of Senegal, President Bouteflika of Algeria and President Mbeki of South Africa presented their strategy for Africa's renewal. This strategy, sometimes called a 'Marshall Plan for Africa' is officially titled the *New Partnership for Africa's Development* (NEPAD). 'We are essentially saying', President Mbeki later explained, 'that surely the time has come that as the African continent, we should see an end to the underdevelopment of the continent, and an end to the poverty and there must be an end to conflicts'[4].

NEPAD is a proposed partnership between Africa and the developed world. It is, as President Obasanjo explained, 'our own homegrown idea for development'[5]. Industrialised nations are considering easing access for African goods to western markets and providing more aid and investment into African countries. This aid would be targeted at infrastructure projects, debt relief and education. In return, Africa would commit itself to principles of 'good governance' and a degree of self-policing. The principles are based around open and accountable governance, democracy, the rule of law and the need for peace, security and stability, including liberal reforms to establish sound economies.

Within NEPAD's proposed new framework for the relationship between Africa and the West, there are also radical new proposals for debt relief. NEPAD goes far beyond the failed HIPC paradigm to call for the

[1] See 'HIPC – Flogging a dead process' by Jubilee Plus at the New Economics Foundation (the former name for Jubilee Research.)
[2] Human Development Report 2002
[3] South Africa was ranked 89 out of 174 countries in 1995 and 107 out of 173 countries in the Human Development Report 2002
[4] President Mbeki of South Africa, speaking at the opening session of the World Economic Forum's Africa Economic Summit, June 2002
[5] President Obasanjo of Nigeria, Namibia, May 2002

... extension of debt relief beyond its current levels (based on debt 'sustainability') which still require debt service payments amounting to a significant portion of the resource gap.

Instead, NEPAD proposes that

The long term objective of the New Partnership for Africa's Development is to link debt relief with costed poverty reduction outcomes. In the interim, debt service ceiling should be fixed as a proportion of fiscal revenue, with different ceilings for IDA and non-IDA only countries[6].

The proposals by African leaders are in themselves an admission that the HIPC initiative has not worked. Social indicators from Africa continue to be poor; the AIDS crisis grows exponentially; and African countries continue to transfer a large proportion of their precious resources in unproductive debt repayments. By the end of 2000, almost 16.5 million people had died from AIDS in sub-Saharan Africa, 10 million children had lost their mother or both parents, and more than 30 million people were living with HIV[7].

If the lives and human rights of millions and millions of people in Africa are to be valued as highly as they are in Western countries, then western creditors must cancel the debts of most African governments.

In this report, we show that **if the calls by African leaders for further debt relief are to be properly implemented, extra debt relief of between $100bn and $150bn will be needed.**

Prior to the Jubilee 2000 campaign, there was popular resistance in Britain to the notion of debt relief for developing country governments because of a widespread view that the money would be misspent. Our report shows that on the contrary, African governments given debt relief have used the money to good effect.

The great achievement of the Jubilee 2000 campaign was to ensure that precious resources remained in Africa. This report shows that these resources have been used productively, to promote expenditure on health and education. Likewise, African leaders are proposing under NEPAD that money should be ploughed into African budgets, returning ownership of the process to the countries themselves. Jubilee Research welcomes this approach.

UK Prime Minister Tony Blair has described the proposal from African leaders as the 'best chance in a generation to do development differently'. The World Summit on Sustainable Development is about creating a more peaceful, prosperous and secure world. We believe that, as President Mbeki said, the time has come for industrialised nations to answer the call from African leaders and ensure that the Millennium Development Goals are achieved. That would be an admirable outcome from the 65,000 international delegates gathered in Johannesburg, South Africa.

[6] The New Partnership for Africa's Development (NEPAD), October 2001, pp 37-38

[7] Human Development Report 2002

Part One: Current Status of Debt Relief

African countries owe almost $300 billion in external debt, or about 12% of total debt owed by all developing countries. Almost half of this - $149 billion – is owed by the 34 African countries included under the World Bank and IMF's Heavily Indebted Poor Country (HIPC) debt relief initiative[8]. Yet during the long drawn out process of negotiating debt relief under the HIPC process, which started in 1996, Africa has sunk further into poverty. The number of people in extreme poverty in Sub-Saharan Africa rose from 242 million to 300 million during the 1990s.[9]

Only five African countries (Burkina Faso, Mauritania, Mozambique, Tanzania, Uganda) have reached 'Completion Point' under the initiative – the point at which they receive a reduction in their stock of debt. In total, these countries have received only $13.6bn in debt relief. Of this, $1.4bn is accounted for by 'traditional' debt relief by bilateral creditors, namely the debt relief that would have been granted under the old Paris Club mechanisms which predated HIPC[10].

17 African countries are between 'Decision Point' (reached after three years of structural adjustment programmes) and Completion Point under HIPC. These countries have already received 'traditional' debt cancellation totalling $8.03bn but are yet to receive full debt cancellation, which will total $25.2bn. Most of these countries are receiving some interim relief on their debt service payments, although The Gambia, Malawi, Guinea and Guinea-Bissau have had even this relief suspended because of failures to comply with IMF conditionalities.

A further 7 countries (Burundi, Central African Republic, Cote D'Ivoire, Comoros, Congo DR, Congo Rep and Togo) may reach 'Decision Point' within the HIPC initiative at some stage in the future. A number of these countries are in conflict, or are regarded by western creditors as too corrupt to be eligible for debt relief. None of these countries has received any debt cancellation under HIPC but three (Central African Republic, Cote D'Ivoire and the Republic of Congo) have received some traditional debt cancellation totalling about $1.2bn.

Kenya and Angola will not be receiving any debt relief because they are deemed by creditors to already have a sustainable level of debt; and Liberia, Sudan and Somalia are not expected to reach 'Decision Point' in the foreseeable future because they are at war.

Even those countries that have finally passed through the hoops and structural adjustment policies of the HIPC process face substantial challenges. Uganda, the first country whose economic policies were found acceptable by the IMF and who was widely promoted as a star pupil, has an unsustainable level of debt once again. Uganda's exports have fallen dramatically because of falling coffee prices. The World Bank itself admits that, of the other African countries between 'Decision Point' and

[8] For further information on the HIPC initiative, see the Jubilee Research website at http://www.jubileeresearch.org/hipc/tracking_hipc.htm
[9] Human Development Report 2002
[10] The Paris Club is an informal group of creditor countries which meets periodically to provide debt relief.

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'Completion Point' under HIPC, 9 are all likely to have unsustainable debt burdens at Completion Point according to the World Bank's criteria of sustainability. The governments of Benin, Chad, Ethiopia, Guinea, Guinea-Bissau, Malawi, Rwanda, Senegal and Zambia will continue to pay too much in debt service because their countries' export revenues are lower than the highly optimistic predictions made by the Bank and the IMF at Decision Point.

Many of these countries now face famine. Sub-Saharan Africa has the lowest life expectancy at birth, the lowest school enrolment rates, the lowest GDP per capita. Of the 36 countries classified by the Human Development Report 2002 as having the lowest levels of human development in the world, all but eight are in Africa. African countries occupy all of the bottom 27 positions.

It is clear that the HIPC initiative is still doing far too little to help these African countries escape the cycle of debt and poverty.

Summary of relief given to African countries under HIPC in nominal US$

	Total Debt Stock	Debt Relief Provided	Debt Relief Committed	Remaining Debt Stocks
Completion Point Countries (5)	$23.1bn	$13.6bn		$9.5bn
Decision Point Countries (17)	$54.1bn	$8.03bn	$25.2bn	$20.9
Future Decision Point Countries (7)	$33.9bn	$2.1bn	0	$31.8bn
Other HIPCs (5)	$38.3bn	$0.29bn	0	$38.bn
All African HIPCs (34)	$149.4bn	$24.0bn	$25.2bn	$100.2bn

Map 1: African Countries and the HIPC Initiative

Part Two: Doing Development Differently

The NEPAD Proposal

The African leaders who put together the NEPAD proposal were well aware of the weaknesses of the HIPC process. For this reason, they called for an extension of the current HIPC initiative which, as they note, 'still requires debt service payments amounting to a significant proportion of the resource gap[11].'

Instead, the African leaders called for a two part approach. In the long run, they echoed the calls of NGOs in both North and South, for debt relief to be linked to costed poverty reduction outcomes. At Jubilee Research, we believe that these 'costed poverty reduction outcomes' should be the internationally agreed Millennium Development Goals (MDGs) – a set of poverty reduction targets agreed by the United Nations General Assembly in September 2000.

However, the African statesmen who put together the NEPAD proposal recognised that developing full costings of these goals for all African countries would take time – and that debt relief needed to be granted immediately. For this reason, they proposed that in the short term, debt service payments should be limited to a certain proportion of fiscal revenues, with different thresholds for 'IDA only' countries – those that are able to borrow from the World Bank on the most concessional terms – and other countries.

The rationale for using fiscal revenues for granting debt relief - rather than the export criteria usually used under the HIPC initiative – is that it is fiscal revenues that really matter when determining debt sustainability (in other words, the *ability to pay.)* This is because, while export revenues provide governments with the hard currency from export earnings to repay debt, governments do not own all of the export revenue their country earns. It is government tax revenues that really determine how much a government can afford to pay.

Here, we look at the likely implications for debt relief of both parts of the NEPAD proposals. Using a similar methodology to that used in our recent report 'The Unbreakable Link – Debt Relief and the Millennium Development Goals', we provide rough estimates of how much each African country will need to spend annually if they are to meet the MDGs. We ask whether African countries will need further debt cancellation if these goals are to be met – and conclude that for most countries, the answer is most certainly 'yes.'

We also ask how much more debt cancellation would be needed in the short term if debt service payments were limited to a certain proportion of tax revenues. Because the NEPAD proposal does not specify a given level of revenues, we look at two different options. One option, which closely matches a Bill which was introduced into the US Congress in April of this year, proposes that African countries should pay a maximum of 10% of their tax revenues in debt service each year – 5% if they are an IDA-only country. A weaker option, which is similar to that promoted by, amongst others, Oxfam and the Centre for Global

[11] The New Partnership for Africa's Development (NEPAD), October 2001, pp 37.

Development in the US, uses thresholds of 10% and 20%. With either proposal, we conclude that the majority of African countries will need more debt relief, totalling between $100bn and $150bn.

Meeting the Millennium Development Goals

Many African countries are far behind if they are to meet their Millennium Development Goals by 2015. Sierra Leone, recently ravaged by one of the world's worst civil wars, is lagging on every indicator that we have data for; Mozambique, now facing a serious famine, is behind on most of the indicators[12].

However, calculating the resources needed to meet the MDGs is no easy task. Data on the number of poor people in each country, the current level of indicators such as HIV and malarial prevalence, or even the number of children in school, is often not available, or not reliable. Moreover, working out the exact amount that will need to be spent across different countries to meet common objectives requires making heroic assumptions about costs in each country. Although work is starting in organisations such as the United Nations Development Programme to develop proper country costings, this work is still in its early stages.

For this reason, here we rely on general estimates provided by organisations such as the Global Commission for Macroeconomics and Health, UNICEF and the World Bank. Using these figures, we estimate how much each country will need to spend to meet the Millennium Development Goals, and compare this to the resources generated through taxes and aid, bearing in mind that not all aid will be used for poverty reduction. Based on the NEPAD proposal, we assume that no African country should pay more in debt service payments than they can afford, while still meeting the internationally agreed Millennium Development Goals.

From this, we identify three groups of African countries:

Group A: Countries that cannot afford to divert *any* of their precious resource in unproductive debt service payments if they are to meet the Millennium Development Goals. We show that these countries will need total cancellation of their $127bn external debt.

Group B: Countries that can afford *some* debt repayment; but whose *current* levels of debt servicing are too high, denying them the resources needed to meet the Millennium Development Goals. These countries will need debt cancellation of roughly $6.6bn.

Group C: Countries which are *potentially* (barring internal and external shocks) able to meet all of their debt service requirements and meet the Millennium Development Goals. These countries are generally those with high rates of tax collection relative to their GDP.

[12] Human Development Report 2002

Box 1: The Millennium Development Goals

1 Eradicate extreme poverty and hunger

- Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger

2 Achieve universal primary education

- Ensure that, by 2015, children everywhere, girls and boys alike, will be able to complete a full course of primary schooling

3 Promote gender equality and empower women

- Eliminate the gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015

4 Reduce child mortality

- Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

5 Improve maternal health

- Reduce by three quarters, between 1990 and 2015, the maternal mortality rate

6 Combat HIV/AIDs, malaria and other diseases

- Have halted, and begun to reverse, the spread of HIV/AIDS
- Have halted by 2015, and begun to reverse, the incidence of malaria and other diseases

7 Ensure environmental sustainability

- Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
- Halve by 2015, the proportion of people without sustainable access to safe drinking water
- BY 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

8 Develop a global partnership for development

Group A: Can't Pay

The poorest countries in Africa fall into this category, some 29 out of the 41 countries examined. All of these countries are HIPCs, with the exception of Zimbabwe and Nigeria.

Kenya also falls into this group even though she will not be receiving any benefit from HIPC - because Kenya is deemed by western creditors to already have a sustainable level of debt. Yet Kenya does have additional requirements if the country is to meet the MDGs. The total required spending on health, for example, if Kenya is to meet the MDGs is approximately $1,054m compared to current spending of only $249m.

Nigeria is also shown to have insufficient resources to meet the Millennium Development Goals. Nigeria was initially on the IMF list of heavily indebted countries needing debt cancellation, but was subsequently removed from that list for reasons which have never been fully explained.

In total, our analysis shows that this group of countries will need total cancellation of their $127bn stock of external debt.

Group B: Paying Too Much

This group of 6 countries – Algeria, Cote D'Ivoire, Egypt, Mauritius, Mauritania and Morocco – does have some capacity to service their debts while still meeting the MDGs. However, their total debt service of $11.3bn exceeds the $10.5bn which, according to our calculations, they can afford to pay. These countries will need partial debt cancellation, totalling approximately $6.6bn, if they are to meet the MDGs[13].

Group C: Could Pay

These 5 countries – Botswana, Lesotho, South Africa, Swaziland and Tunisia – have very high ratios of tax revenues to GDP and should therefore, at least on paper, be able to meet the MDGs, as well as to service their external debt. However, this analysis does not take into account the potential impacts of internal and external shocks on the capacity of these countries to make debt service payments. In particular, the current drought which is sweeping across Southern Africa may undermine the capacity of these countries to continue making debt service payments while providing the resources to feed their own populations. Moreover, the HIV/AIDs crisis in countries such as Botswana and South Africa, is throwing the future economics prospects of these countries into serious doubt.

While many of these countries do have significant poverty levels, they also have rich elites. Poverty levels therefore could be reduced through a significant redistribution of wealth within the country itself.

[13] This figure is calculated by assuming that these countries will need debt cancellation of approximately 7% to meet the MDGs. This is the difference between the $10.5bn that they have available to spend on debt service and the $11.3bn actually paid. Applying 7% to the total stock of debt of $88.9bn of these countries gives a required debt cancellation of $6.6bn.

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Map 2: African Countries and Required Debt Cancellation to meet the Millennium Development Goals

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Current levels of debt service and NEPAD

The analysis above has shown that, if implemented, the NEPAD proposal would require, over the long run, additional debt cancellation of about $134bn for African countries.

Here, we look at NEPAD's short term proposal - that debt service payments should be limited to a certain proportion of tax revenues.

In 1999, the 41 African countries that we examined were paying an average of 18% of their revenues in debt service.

Some countries were paying particularly large proportions:

- Angola paid 85% of her revenue in debt service in 1999, according to the official figures. Quite how this is possible in a war-ravaged country is not clear!
- Sierra Leone paid 90% of her revenue in debt service in 1999. This must have been paid by donors on Sierra Leone's behalf during the civil war. Aid grants will have been diverted to pay for debt service to the IMF and the World Bank.

The HIPC initiative does not do enough to bring down debt service as a proportion of tax revenues. For the 26 countries that have passed Decision Point, average debt service will remain at at least 10% of revenues even after full relief. For some countries, the ratio will remain even higher. Guinea, for example, will be paying more than 20% up to 2004, and the same applies to both Sierra Leone and Zambia.

How much debt relief is needed?

We have examined two different scenarios to estimate how much more relief would be needed under the NEPAD proposal.

i) Strong proposal

In this proposal, debt as a proportion of revenues is set at 5% for IDA only countries and 10% for other countries.

This proposal is similar to the proposal being discussed by the US Congress, although the US proposal only includes HIPC countries, and defines countries as to whether or not they have a health emergency.

We calculated how much debt service could be paid if the 5% and 10% proportions of tax revenues were fixed. We then assumed the same ratio between debt service and total debt as in 2000. For example, this meant that if a country would pay only 2/3 of what it currently pays under the current proposal, then its debt stock would need to be cancelled by one third.

We found that there would need to be additional debt cancellation for almost all African countries, apart from Botswana, Egypt, Nigeria and Swaziland. In the case of Nigeria, this is largely due to the fact that Nigeria is only paying a proportion of the debt service due. (According to the Nigerian Debt Management Office, in 2002 Nigeria will only pay around half of the $3bn due in debt service payments[14].)

We find that the total amount of debt cancellation needed to bring

[14] 'Nigeria under weight of foreign debt' Financial Times, 26th July 2002 by Michael Peel.

debt service levels down to 5% for IDA countries or 10% for non-IDA countries would be $147bn, or just over half of current debt stocks.

ii) Weak Proposal

In this proposal, debt as a percentage of revenues was set at 10% and 20% for IDA and non-IDA only countries. The same methodology was used.

This is the proposal that Oxfam made in 2001 and is also broadly consistent with the recent proposal of Nancy Birdsall of the Centre for Global Development in the US to limit debt service to 2% of GDP[15]. However, it is less generous than the US Congress proposal.

The proposal to limit debt payments to 10% and 20% of tax revenues would entail further debt cancellation for most countries, except Botswana, Egypt, Nigeria, Swaziland, Central African Republic, Republic of Congo, South African and Sudan. However, for most of these countries (apart from South Africa) it is again likely that debt service due is much higher than actual debt service paid – so if the countries were paying the debt service much more debt cancellation would be needed.

The total debt cancellation needed to bring country's debt service levels down to 10% or 20% of tax revenues is $100bn, or almost one third of current debt stocks.

The analysis undertaken has shown that, under either proposal, African countries will need much more debt cancellation. Ultimately, however, we believe that debt relief cannot be assessed through arbitrary ratios of debt service to either exports – as under HIPC – or revenues – as under the NEPAD. In part four, we will argue that debt cancellation must be assessed on a case by case basis through an international bankruptcy process, based on principles of justice and reason – the Jubilee Framework for international insolvency.

[15] 'Delivering on Debt Relief: From IMF Gold to a New Aid Architecture' by Nancy Birdsall, John Williamson with Brian Deese.

Part Three: The Jubilee 2000 Achievement: diverting money from debt payments to health and education

Cynics have always said that debt relief is not appropriate for Africa. They claim that the money will either not be spent on the key areas needed to reduce poverty, or that the debt cancellation will simply result in increased military expenditure.

Our analysis shows that this is simply not the case. Spending on education and health has risen in those countries that have received relief as a result of the international Jubilee 2000 campaign. By contrast, military expenditure has remained roughly constant.

The IMF has prepared a report on debt relief and social expenditure;[16]but their figures do not provide a breakdown for education and health spending. Nor does their report make clear what exchange rate assumptions were used to convert local currency figures provided in nominal budgets, into US dollars. We therefore resolved to undertake our own research.

There are significant problems in tracking budgetary expenditures in African countries. This is because of weak budgetary systems and lack of capacity to monitor budget expenditures.

Our conclusions are therefore tentative, but indicative; it is early to draw definite conclusions about the impact of HIPC relief on African countries, as only five countries have finally passed 'Completion Point'. In addition, most impacts of debt service savings are only felt after a substantial time lag. Nevertheless, our results demonstrate an extremely positive trend.

Spending on Debt Service

We undertook a preliminary analysis of the countries that had already reached Decision Point, and therefore are already paying less in debt service savings, by the end of the year 2000 – the deadline set by the international Jubilee 2000 coalition.

In this report, we have identified 10 countries[17] for which we were able to obtain data on education and health spending for 1998 to the projected levels by 2002.

We found that debt service was indeed falling between 1998 and 2001, but there was an upturn in total debt service paid in 2002, although this was still lower than the 1998 levels. The IMF report referred to above showed that this was indeed a trend for all of the 23 countries which had passed Decision Point by that time. In other words, the HIPC process has encouraged poor countries to become better debtors, by increasing their debt service payments.

Under HIPC, total debt service due increased from $1,197m in 2000 to $1,838m in 2001 and $1,968m in 2002. Nevertheless, these debt payments are still lower than they were in 1998 and have therefore released resources for spending on health and education.

[16] The Impact of Debt Reduction under the HIPC Initiative on External Debt Service and Social Expenditures, IMF/IDA, September 2001.

[17] Burkina Faso, Cameroon, The Gambia, Guinea-Bissan, Madagasca, Malawi, Mauritania, Niger, Rwanda and Uganda

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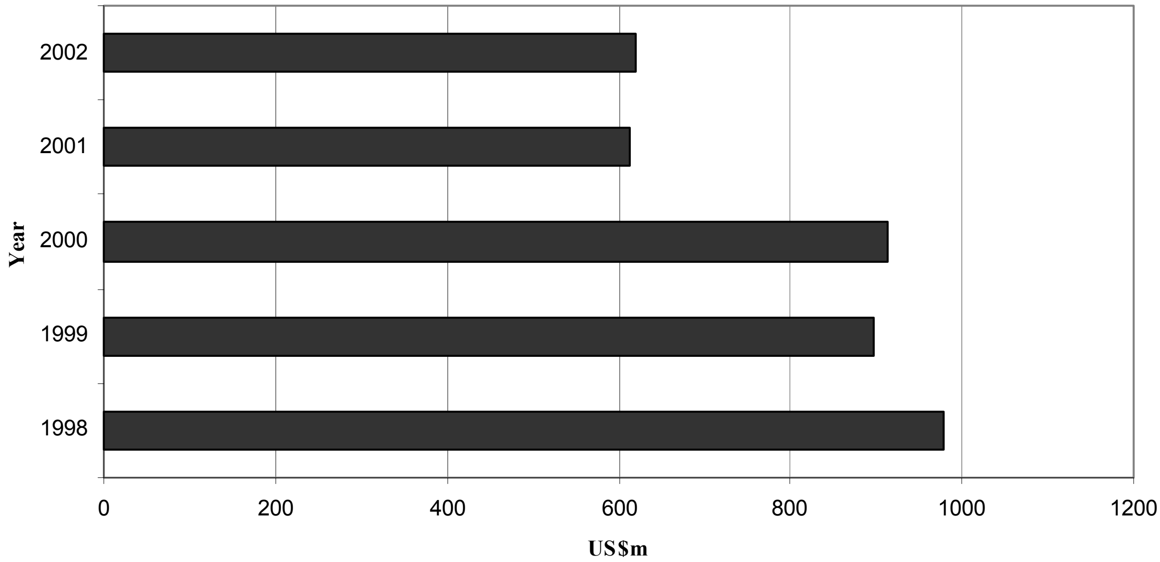
Debt Service 1998-2002 (10 countries)



Debt Relief and Spending on Education and Health

Access to primary education is a basic human right. Education benefits individuals, their families, and also society as a whole, by enabling greater participation in democratic processes. Education serves to empower individuals, helps them to take advantage of economic opportunities, and improves their health and that of their family.

None of this is rocket science, and it is excellent that our research shows that **there has been a clear and marked upward trend in education spending in the 10 countries, from only $929m in 1998, less than the amount spent in debt service, to $1306m in 2002, or more than twice the amount spent on debt service.**

Health care is also fundamental. In health spending, **there has been an overall increase from $466m in 1998 to $796m in 2002,** a growth of around 70%. Like education spending, this has meant that **health spending has grown from around half the level of spending on debt service in 1998, to 30% more than the amount spent on debt servicing in 2002.**

These figures are aggregate. However, even on a country-by-country basis, each of the 9 countries apart from The Gambia and Malawi have seen steady increases in education and health spending. In the case of Malawi, or analysis shows that these fluctuations are mostly due to exchange rate movements.

Military Spending

Many people have concerns that money saved in paying external debts will merely be spent in increased military expenditures.

On the contrary, we found that military spending remained relatively constant between 1998 and 2001, at approximately 2% of GDP in the countries concerned, or $580m. In other words, there was no evidence that greater revenues - as a result of savings in debt service payments - were resulting in greater levels of military spending.

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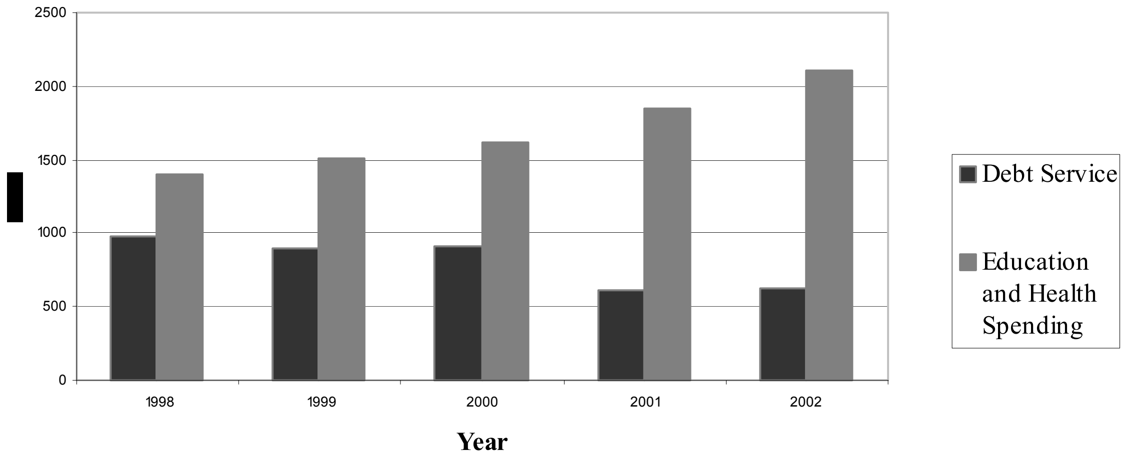
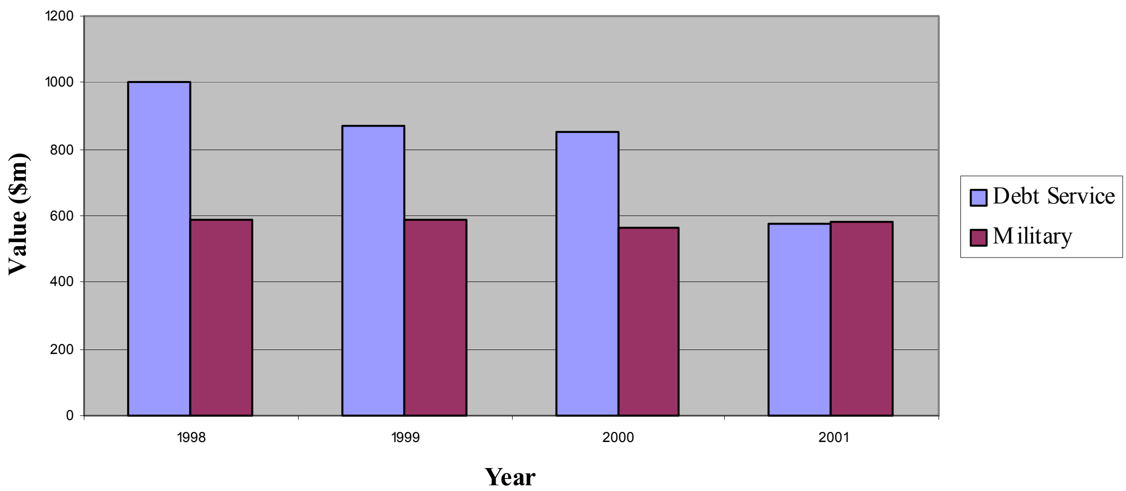
Total Education and Health Spending against Debt Service



There are significant problems, when examining budgets, in determining exactly where funding is going. This is particularly the case with military expenditure. Our analysis looked at only seven countries. These countries were chosen because we were able to find reliable data on their military expenditure up until 2001[18], and which had already reached Decision Point by the end of 2000. They were Burkina Faso, Cameroon, Malawi, Mozambique, Rwanda, Senegal and Uganda. We will need to continue to monitor military expenditure in other countries as and when it becomes available to reach wider conclusions.

Debt Service and Military Expenditure in 7 HIPC Countries



[18] The data on military spending comes from the Swedish International Peach Research Institute (SIPRI). They only had data up to 2001.

Part Four: The Time Has Come

The recently published Human Development Report assesses the progress all countries are making towards the Millennium Development Goals. It concludes that, in Sub-Saharan Africa, 19 countries (out of 35) are behind meeting the Millennium Development Goal of halving hunger; and 37 (out of 44) are seriously behind on the target of reducing the mortality rate of under fives. Even South Africa, the host country for the World Summit on Sustainable Development, is slipping back on its target to reduce infant mortality by two-thirds. South Africa has dropped almost twenty places in the Human Development Index since 1995.[19]

Our analysis shows that debt relief is having a clear impact on government budgets; the funds are going into desperately needed health, education and infrastructural projects. Children are beginning to get the education they need if they are to play their part in moving Africa out of poverty.

Yet the debt cancellation delivered so far has been, once again, too little, too late. The NEPAD revenue proposal is a step forward from where we are at present. But even the strong proposal we outlined above to bring debt service payments down to 5% of government tax revenues will still not provide sufficient resources to meet their Millennium Development Goals in the majority of African countries.

We at Jubilee Research at the New Economics Foundation call for much more radical action. In particular, we call for an alteration to the structural injustice of relations between international creditors and sovereign debtors. Under the current international financial system, creditors are in a dominant position. While they are co-responsible for the debt, they do not share the burden of losses when debt becomes un-payable. That is why we need an international bankruptcy framework for sovereign debtors.

Jubilee Research at NEF has proposed such a framework – the Jubilee Framework[20]. This would introduce justice into relations between those co-responsible for the debt crisis. Only under a framework of justice can countries hope to achieve the Millennium Development Goals.

Fundamental to the Jubilee Framework, as with all bankruptcy laws, is the protection of the human rights of the debtor. While shareholders and employees of Enron are seeing their human rights protected under an organised bankruptcy process, the people of Argentina are left to riot on the streets. The Millennium Development Goals are an internationally agreed standard for the minimum protection of human rights, the right to clean water, an education and protection from disease. In order to achieve these goals, we would expect the arbitration process of the Jubilee Framework to recommend total debt cancellation for most of the poorest countries in Africa, in ways

[19] Human Development Report 2002. The total number of countries changes because of the changing number of countries for which data was not available.

[20] See 'Chapter 9/11? Resolving international debt crises – the Jubilee Framework for international insolvency.' Available at http://www.jubileeresearch.org/analysis/reports/jubilee_framework.pdf

that a transparent and accountable to the people of those countries.

Our research shows that, contrary to the cynicism of some in the industrialised world, African governments are using debt relief to deliver resources for human development through their budgets. It shows that the millions of campaigners who signed the Jubilee 2000 petition did not do so in vain. Debt relief does have a real impact on social spending, and on real peoples' lives on the ground.

We believe that it is urgent that western creditors respond to the African leaders who have drafted the New Economic Partnership for Africa's Development (NEPAD.) The time has come, as President Mbeki has said, to bring an end to the under-development of the African continent.

TABLE 1: DEBT CANCELLATION REQUIRED TO MEET THE MILLENNIUM DEVELOPMENT GOALS IN AFRICAN COUNTRIES

Country	Total Required Spending ($m)	Maximum Income ($m)	Available for Debt Service	Actual Debt Service	Difference	Group
Algeria	11,335	14386	3,051	4,467	-1,416	B
Angola	1,998	976	-1,022	1,205	-2,227	A
Benin	607	428	-179	77	-256	A
Botswana	1,349	2576	1,227	68	1,159	C
Burkina Faso	875	500	-375	55	-430	A
Burundi	391	158	-233	21	-254	A
Cameroon	1,943	1565	-378	562	-940	A
Central African Republic	278	208	-70	14	-84	A
Chad	533	155	-378	26	-404	A
Congo, Dem. Rep. Of	2,965	52	-2,912	25	-2,937	A
Congo, Republic of	671	658	-13	43	-56	A
Cotê d'Ivoire	2,146	2492	346	1,020	-674	B
Egypt	19,749	23827	4,078	1,813	2,265	B
Ethiopia	3,850	1162	-2,688	139	-2,827	A
Gambia, The	136	85	-52	19	-70	A
Ghana	1,575	1355	-221	472	-693	A
Guinea	746	490	-256	133	-389	A
Guinea Bissau	86	59	-26	6	-33	A
Kenya	3,057	2889	-168	481	-649	A
Lesotho	325	397	72	66	6	C
Madagascar	1,218	514	-703	93	-796	A
Malawi	718	418	-300	59	-359	A
Mali	836	538	-299	97	-396	A
Mauritania	288	366	78	100	-22	B
Mauritius	732	906	173	553	-380	B
Morocco	7,731	10518	2,787	3,333	-546	B
Mozambique	1,418	796	-622	88	-710	A
Niger	760	233	-527	28	-555	A
Nigeria	11,766	10797	-970	1,009	-1,979	A
Rwanda	688	312	-377	35	-412	A
Senegal	1,203	1011	-193	228	-421	A
Sierra Leone	325	80	-244	43	-287	A
South Africa	24,842	37100	12,258	3,860	8,398	C
Sudan	3,194	826	-2,368	61	-2,429	A
Swaziland	312	458	147	24	123	C
Tanzania	2,789	1212	-1,577	217	-1,794	A
Togo	374	228	-146	30	-176	A
Tunisia	3,869	6086	2,217	1,900	317	C
Uganda	1,980	907	-1,073	159	-1,232	A
Zambia	821	772	-48	186	-234	A
Zimbabwe	2,242	1719	-523	471	-994	A
Total	**122,721**	**130212**	**7,491**	**23,285**	**-15,794**	
Total Group A	50,044	31101	-18,943	6,082	-25,024	
Total Group B	41,981	52494	10,513	11,286	-773	
Total Group C	30,696	46617	15,921	5,917	10,003	

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TABLE 2: DEBT CANCELLATION REQUIRED UNDER 'STRONG' PROPOSAL

Country	Classification	2000 ($m) Total Debt	Revenues $m	Max debt service (% of revenues)	Maximum Debt Service	Maximum Debt Stock ($m)	Required Debt Cancellation ($m)
Algeria	Non IDA	25,002	14,362	10	1,436	8,038	16,964
Angola	IDA	10,146	846	5	42	356	9,790
Benin	IDA	1,599	379	5	19	394	1,205
Botswana	Non IDA	413	2,560	10	256	413	0
Burkina Faso	IDA	1,332	387	5	19	469	863
Burundi	IDA	1,100	128	5	6	335	765
Cameroon	IDA	9,241	1,470	5	73	1,208	8,033
Central African Republic	IDA	872	168	5	8	519	353
Chad	IDA	1,116	124	5	6	266	850
Congo DR	IDA	11,645	6	5	0	130	11,515
Congo Rep	IDA	4,887	594	5	30	3,376	1,511
Cote D'Ivoire	IDA	12,138	2,308	5	115	1,374	10,764
Egypt	Non IDA	28,957	23,446	10	2,345	28,957	0
Ethiopia	IDA	5,481	988	5	49	1,948	3,533
Gambia	IDA	471	78	5	4	99	372
Ghana	IDA	6,657	1,227	5	61	865	5,792
Guinea	IDA	3,388	411	5	21	523	2,865
Guinea-Bissau	IDA	942	39	5	2	295	647
Kenya	IDA	6,295	2,791	5	140	1,826	4,469
Lesotho	IDA	716	385	5	19	210	506
Madagascar	IDA	4,701	424	5	21	1,072	3,629
Malawi	IDA	2,716	291	5	15	670	2,046
Mali	IDA	2,956	443	5	22	675	2,281
Mauritania	IDA	2,500	283	5	14	354	2,146
Mauritius	Non IDA	2,374	900	10	90	386	1,988
Morocco	Non IDA	17,944	10,359	10	1,036	5,577	12,367
Mozambique	IDA	7,135	484	5	24	1,962	5,173
Niger	IDA	1,638	172	5	9	502	1,136
Nigeria	Blend	34,134	10,773	10	1,077	34,134	0
Rwanda	IDA	1,271	198	5	10	359	912
Senegal	IDA	3,372	823	5	41	609	2,763
Sierra Leone	IDA	1,273	47	5	2	70	1,203
South Africa	Non IDA	24,861	36,978	10	3,698	23,816	1,045
Sudan	IDA	15,741	826	5	41	10,658	5,083
Swaziland	Non IDA	262	458	10	46	262	0
Tanzania	IDA	7,445	926	5	46	1,588	5,857
Togo	IDA	1,435	206	5	10	493	942
Tunisia	Non IDA	10,610	6,032	10	603	3,368	7,242
Uganda	IDA	3,409	718	5	36	770	2,639
Zambia	IDA	5,730	599	5	30	922	4,808
Zimbabwe	IDA	4,002	1,649	5	82	700	3,302
TOTAL		**287,907**	**126,284**		**11,608**	**140,548**	**147,359**

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TABLE 3: DEBT CANCELLATION REQUIRED UNDER 'WEAK' PROPOSAL

Country	Classification	2000 ($m) Total Debt	Revenues $m	Max debt service as (% of revenues)	Maximum Debt Service ($m)	Maximum Debt Stock ($m)	Required Debt Cancellation ($m)
Algeria	Non IDA	25,002	14,362	20	2,872	16,077	8,925
Angola	IDA	10,146	846	10	85	712	9,434
Benin	IDA	1,599	379	10	38	787	812
Botswana	Non IDA	413	2,560	20	512	413	0
Burkina Faso	IDA	1,332	387	10	39	937	395
Burundi	IDA	1,100	128	10	13	669	431
Cameroon	IDA	9,241	1,470	10	147	2,417	6,824
Central African Republic	IDA	872	168	10	17	872	0
Chad	IDA	1,116	124	10	12	532	584
Congo DR	IDA	11,645	6	10	1	260	11,385
Congo Rep	IDA	4,887	594	10	59	4,887	0
Cote D'Ivoire	IDA	12,138	2,308	10	231	2,747	9,391
Egypt	Non IDA	28,957	23,446	20	4,689	28,957	0
Ethiopia	IDA	5,481	988	10	99	3,896	1,585
Gambia	IDA	471	78	10	8	197	274
Ghana	IDA	6,657	1,227	10	123	1,731	4,926
Guinea	IDA	3,388	411	10	41	1,047	2,341
Guinea-Bissau	IDA	942	39	10	4	590	352
Kenya	IDA	6,295	2,791	10	279	3,653	2,642
Lesotho	IDA	716	385	10	39	419	297
Madagascar	IDA	4,701	424	10	42	2,144	2,557
Malawi	IDA	2,716	291	10	29	1,340	1,376
Mali	IDA	2,956	443	10	44	1,350	1,606
Mauritania	IDA	2,500	283	10	28	708	1,793
Mauritius	Non IDA	2,374	900	20	180	772	1,602
Morocco	Non IDA	17,944	10,359	20	2,072	11,154	6,790
Mozambique	IDA	7,135	484	10	48	3,924	3,211
Niger	IDA	1,638	172	10	17	1,003	635
Nigeria	Blend	34,134	10,773	20	2,155	34,134	0
Rwanda	IDA	1,271	198	10	20	718	553
Senegal	IDA	3,372	823	10	82	1,217	2,155
Sierra Leone	IDA	1,273	47	10	5	141	1,132
South Africa	Non IDA	24,861	36,978	20	7,396	24,861	0
Sudan	IDA	15,741	826	10	83	15,741	0
Swaziland	Non IDA	262	458	20	92	262	0
Tanzania	IDA	7,445	926	10	93	3,176	4,269
Togo	IDA	1,435	206	10	21	985	450
Tunisia	Non IDA	10,610	6,032	20	1,206	6,737	3,873
Uganda	IDA	3,409	718	10	72	1,539	1,870
Zambia	IDA	5,730	599	10	60	1,845	3,885
Zimbabwe	IDA	4,002	1,649	10	165	1,401	2,601
TOTAL		**287,907**	**126,284**		**23,215**	**186,951**	**100,956**

Table 4: DEBT SERVICE AND SOCIAL AND MILITARY SPENDING IN SELECTED AFRICAN COUNTRIES

				01	2002
Burkina Faso					
Debt Service	60	53	48	37	24
Education	100	115	96	98	100
Health	65	72	43	62	63
Defence	40	44	43	46	..
Cameroon					
Debt Service	401	401	437	271	267
Education	218	249	269	307	312
Health	59	58	78	94	142
Defence	137	148	144	143	..
Gambia					
Debt Service	26	20	13	10	16
Education	14	14	14	16	13
Health	9	8	9	10	9
Defence	4	4	5	..	..
Guinea-Bissau					
Debt Service	7	6	13	0	6
Education	3	4	8	11	14
Health	2	3	5	7	9
Defence	3	..	..	..	..
Madagascar					
Debt Service	166	106	87	63	68
Education	94	110	116	147	182
Health	37	46	72	83	101
Defence	53	53	48	..	..
Malawi					
Debt Service	90	65	81	42	57
Education	79	70	94	90	95
Health	55	45	52	49	52
Defence	15	14	13	12	..
Mauritania					
Debt Service	88	81	95	84	53
Education	50	47	48	47	61
Health	18	16	15	19	32
Defence	..	..	..	..	..
Niger					
Debt Service	17	19	18	20	37
Education	45	54	46	62	72
Health	27	44	37	46	55
Defence	25	..	..	..	..
Rwanda					
Debt Service	14	47	31	15	12
Education	28	84	92	117	140
Health	28	84	92	117	140
Defence	87	81	66	54	47
Uganda					
Debt Service	110	98	90	71	80
Education	299	244	271	290	317
Health	168	139	151	172	194
Defence	152	120	116	118	151
Total 10 Countries					
Debt Service	979	896	913	613	620
Education	929	990	1055	1184	1306
Health	466	514	555	661	796
Education & Health	1395	1505	1610	1844	2102
Total for 7 countries (Burkina Faso, Cameroon, Malawi, Mozambique, Rwanda, Senegal, Uganda					
Debt Service	1001	870	855	574	..
Education	1030	1088	1164	1312	..
Health	538	575	612	659	..
Defence	588	589	561	584	..

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Jubilee Research at the New Economics Foundation is an official successor to the Jubilee 2000 UK campaign,. Jubilee Research, whose director is Ann Pettifor, took over from Jubilee 2000 in 2001; and provides in-depth analysis and data on third world debt, including the sovereign debts of HIPCs - Heavily Indebted Poor Countries; emerging markets; but also rich debtor nations like the US. We also promote a new, just, international insolvency framework for sovereign debtors - the Jubilee Framework.

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