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Economic Affairs Department
Workshop on Africa's External Debt
21 – 22 March 2005
Addis-Ababa, Ethiopia

REPORT

1 April, 2005

1.0 Introduction

1. The Commission of the African Union organized a Workshop on Africa's external debt problem in Addis Ababa, Ethiopia, from March 21-22, 2005 to explore ways and means of finding a lasting solution to it. The conclusions and recommendations of the Workshop would be discussed by a group of Government experts before being considered by African Ministers of Economy and Finance during a meeting scheduled to take place in Dakar, Senegal, from May 5-7, 2005. If adopted by the African ministers, the recommendations of the Workshop will be the basis for a common African position that will be taken by the Summit of African Heads of State and Government to be held in Syrte, Libya, in July 2005.

2. The Workshop was attended by experts from the African Union Commission; Member States of the Contact Group on Debt; the United Nations Economic Commission for Africa (ECA); the African Development Bank (ADB); the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI); the Regional Economic Communities, including the Common Market for Eastern and Southern Africa (COMESA); civil society organizations; and the academia. The list of participants is attached as Annex 1.

2.0 Official Opening

3. Dr. Maxwell M. Mkwezalamba, Commissioner for Economic Affairs of the African Union, opened the workshop, on behalf of the Chairperson of the African Union Commission. In his opening statement (Annex II), he welcomed and proposed the issues for discussion. The Commissioner pointed out that the issue of Africa's external debt is one of the major concerns of the African Union Commission and that it has been recognized as one of the major obstacles to human development with Africa's external debt being the most unsustainable in the world compared to that of other developing countries. He further pointed out that several solutions had been put forward at both domestic and international levels to enable Africa to get out of its indebtedness. However, the impact of these solutions had been minimal. To this effect, he called for the cancellation of Africa's external debt.

4. The Commissioner also emphasized on the need for the workshop to come up with concrete recommendations, which will be taken to the meeting of Ministers of Economy and Finance scheduled to be held in May 2005. He further pointed out that discussions and recommendations of the meeting of Ministers of Economy and Finance would be submitted to the July 2005 African Union Summit.

3.0 Discussions and Recommendations

5. The discussions revolved around the following topics (Annex III):

- (i) Sub-Saharan Africa's Indebtedness at the Beginning of the 21st Century; Africa: creditor or debtor?
- (ii) Africa's Indebtedness, which way forward after the HIPC Initiative?
- (iii) 2005: Towards a Year of Assertiveness on debt cancellation for Africa.
- (iv) The Position of the African Civil Society on Africa's external debt.
- (v) A few Reflections on debt indicators: the frontier of indebtedness.

- (vi) Scenarios to get Africa out of indebtedness.

3.1 *Sub-Saharan Africa's Indebtedness at the Beginning of the 21st Century; Africa: Creditor or Debtor?*

6. Following an exchange of views on the issue, the Workshop acknowledged the fact that the different bilateral and multilateral initiatives aimed at finding a solution to the problem of Africa's external debt did not yield satisfactory results. Africa's debt continued to grow, the alleviation or cancellation measures each time linked to conditionalities which have progressively led African countries to relinquish exercising full and complete sovereignty in their major economic choices and the net transfer of resources from Africa to repay its debt is higher than the loans actually obtained. It therefore recommended that:

- i. Under the aegis of the African Union, African countries adopt a common position on the debt issue, a negotiation strategy and present a united front before creditors;
- ii. International financial bodies re-evaluate the price of gold in favour of the African countries concerned;
- iii. African countries take the necessary measures to audit their debt with the assistance of the Civil Society;
- iv. African countries should press for an increased Official Development Assistance (ODA) to be granted in the form of donations and request the governments of creditor countries to retain illegally acquired funds deposited in their banks by some Africans; and
- v. Africa asks its creditors to generalise the system of application of the principle of this obnoxious debt as was used in the case of Iraq.

3.2 *Africa's Indebtedness, Which Way Forward After the HIPC Initiative?*

7. The Workshop, after an analysis of the issue, recommended that the following ways out be explored:

- i. Cancellation of Africa's external debt and the adoption by African countries of new development models that could reduce and eliminate their indebtedness in a lasting manner. The request for such cancellation should be based on the inability of African countries to repay their debt, on the principles of «economic justice», of the principle of necessity, and on principles of international law such as «*force majeure*» and the «*omnia conventio intelligitur rebus sic stantibus*» whereby a fundamental change of circumstances can affect the validity of a treaty;
- ii. The establishment of an African Debt Reduction Fund which would be funded by all the debts of African countries. The latter would subsequently be reassigned according to the following techniques:
 - Debt equity swap; and
 - Conversion to exit bonds;

- iii. The establishment of an arbitration mechanism to restructure the debt: the mechanism which is meant to be fair and transparent could restructure the debt of Member States that are unable to reimburse their debt and wish to obtain a payment plan that is effective at both economic and social levels;
- iv. Improvement of the HIPC Initiative in quantitative and qualitative terms in order to make it a more relevant mechanism for alleviation and allocation of resources obtained by eliminating pernicious effects of the logic of financial sustainability, the long period to reach «completion point», the limited number of beneficiaries and unpredictable financing.

3.3 2005: *Towards a Year of Assertiveness on Debt Cancellation for Africa*

8. The workshop discussed debt cancellation and was of the view that despite global policy rhetoric on debt cancellation in 2005, Africa's debt will not be cancelled without greater political will from Governments and mass mobilization from citizens in Africa and in the creditors countries. Regarding African defiance and assertiveness, the workshop made the following observations: some of the political conditions in 2005 exist for a breakthrough on debt:

- The global policy debate has shifted from debt sustainability to cancellation;
- The cancellation of a large part of Iraqi debt and the declaration of a moratorium on Asian countries devastated by Tsunami in early 2005 provide an important recent precedent; and
- In Abuja, Nigeria, the African Heads of State and Government Summit committed the AU to collectively demand debt cancellation on behalf of Africa.

9. Therefore, the following were recommended:

- i) Map out a common African position
 - African states should call for total and unconditional debt cancellation for Africa;
 - This position should not be accompanied by broad fiscal policy or macro-economic conditionalities; and
 - A new arrangement for contracting loan should be envisaged which could not put African countries in indebtedness in the future.
- ii) Commit the AU Commission over the next three months to:
 - Convene a meeting of African Finance Ministers during the upcoming April World Bank and IMF Spring Meetings in Washington DC. This meeting would be a political meeting covered by the press and making clear the Heads of States' position articulated during the Abuja Summit;
 - Approach some African Heads of State and Government to approach individual creditor countries' leaders to support debt cancellation to African countries;

- African Parliamentarians make vocal and visible representation to counterparts in G8 countries; and
 - Should no substantive movement be reached on debt cancellation by the creditors, the AU should formally consider a call to African Governments unable to service their debts to declare a date by which they will be compelled by circumstance and creditors' inaction to collectively repudiate their debts.
- iii) Mobilize the African Parliament over the next three months
- African Parliamentarians make vocal and visible representation to counterparts in G8 countries.
- iv) Request African and international civil society organizations (CSOs) over the next three-six months to:
- Launch aggressive media work on the continued impact of debt in Africa, the causes of indebtedness and the urgency by which dramatic change is required; and
 - Mobilize 100,000s across Africa to make representation to the creditors' countries embassies and their Governments.

3.4 The Position of the African Civil Society on Africa's External Debt.

9. The workshop after discussing the matter was of the view that:
- African external debt is partially a legacy of colonization;
 - Similarly, the imposition of structural adjustment programs by the IMF and the World Bank has significantly contributed to the worsening of the external debt crisis;
 - The unequal rules of international trade and finance have resulted in the accumulation of chronic balance of payment deficits;
 - During the peak of IMF and World Bank intervention in 1980s and 1990s, all reports show that Africa's external debt has literally exploded;
 - Real and lasting solutions to Africa's debt cannot come from creditors; the HIPC approach is based on narrow financial accounting, not on indebted countries' development needs; and
 - The macroeconomic framework that underpins the PRSP is the same as the one that underpinned the now discredited structural adjustment programs (SAPs).
10. Therefore, it recommended the following:
- i) Unconditionnal debt cancellation for all African countries
 - i) An immediate debt cancellation for the "poorest" or low income countries;

- ii) An immediate Moratorium on debt service for all middle-income countries, with no accumulation of arrears;
- iii) The creation of “World Commission on Debt” by the United Nations that conducts debt cancellation activities and proposes new lending rules;
- iv) To have a greater positive impact on Africa’s human development, multilateral debt cancellation and moratorium on debt servicing must be completed by the abolition of all IMF and World Bank-imposed policies;
- v) Opposing the Economic Partnership Agreement (EPA) must be part of the struggle for debt cancellation and the process of reclaiming Africa’s control over its economic and social policies;
- vi) The AU should make the “repatriation of stolen wealth” one of its priorities and launch a campaign to that effect; and
- vii) The AU should revive the “Commission on Reparation” that was established by the OAU.

3.5 A few Reflections on Debt Indicators: the Frontier of Indebtedness

12. The workshop, mindful of the need to have reliable statistics and indicators, initiated a brainstorming to that effect and recommended:

- i. The signing of a contract between creditors and debtors on the use of surpluses resulting from alleviation or obliteration of the debt;
- ii. The adoption by African States of a decision-making mechanism which takes the general interest into consideration; and
- iii. The transparency of procedures used by African countries to contract loans.

3.6 Scenarios to Get Africa out of Indebtedness

13. The Workshop was briefed on the scenarios hereunder envisaged by the African Union Commission to find a solution to the recurrent problem of Africa’s external debt:

- a) Pure and simple cancellation of the debt:
 - total cancellation for all African countries;
 - classification of debtor countries on the basis of set criteria such as: accession to a Peer Review Evaluation Mechanism , countries in post-conflict situations;
- b) A 25-year moratorium on debt payment;
- c) Comparison of the amount to be paid yearly for the debt with that earmarked annually for social expenditure of debtor countries;
- d) Debt payment in local currency or in an African currency;

- e) Debt cancellation for the 1960-2000 period;
- f) Debt equity swap in debtor countries; and
- g) Non-payment of debt;
- h) Optimisation of future loans: non-debt-generating financing.

14. The underlying reasons for these scenarios as well as their consequences on African economies and the conditions for their success were also reviewed and are included in Annex IV of the present report.

15. After commending the Commission for the initiative of proposing such scenarios, the Workshop recommended as follows with regard to some of the scenarios:

- i. A comprehensive evaluation of the debt not only country by country, but also period by period and definition of the consequences on development;
- ii. **Cancellation:**
 - classification of debtor countries based on Peer Evaluation Mechanism and conflicts should be avoided;
 - there is the need to agree on a convincing argument to backstop the request for debt cancellation;
- iii. Moratorium: it would be preferable not to specify deadlines and request moratoriums in conjunction with a clause for non-payment of arrears accruing from interest on the debt;
- iv. **Payment in local currency or an African currency:** this proposal excludes the franc zone and should be reviewed;
- v. **cancellation of debt for the 1960-2000 period:** it is not recommendable to specify the period for such a cancellation; and
- vi. **Non-payment of debt:** some were of the opinion that it was not in the interest of debtor countries to envisage such an approach.

16. After reflecting on the scenarios proposed by the African Union Commission, the **workshop opted for the total and unconditional cancellation of the Africa's external debt.**

4.0 General Discussions

4.1 *Strategy for Africa's Debt Re-negotiations*

17. In discussion with the donors on Africa's request for immediate debt relief, many arguments should be put forward. One general argument is that in order for Africa to be able to face the challenges of globalization, it needs abundant financial resources, which are presently not available. *Debt cancellation* will release additional resources to African countries, thereby enabling them to accelerate economic growth, diversify the composition of their outputs, create new employment opportunities and reduce poverty in a lasting manner. Other arguments are of a legal and moral nature.

18. Participants suggested examining the possibility to apply the “*doctrine of odious and illegitimate debt*” in the Africa’s request for total debt cancellation. This doctrine would basically challenge the legitimacy of much of Africa’s debt. The reasoning behind it would be that, during the period of the Cold War between the communist block and the western countries, many pro-Western post colonial dictatorships in Africa contracted debts, which they used to enrich themselves and their supporters and to repress their own people. These people are now starving to death in order to repay the illegitimate debts. Debt servicing obligations are taking away the resources that would otherwise be used for meeting basic needs such as food, education, health services, shelter, clean water, clothing, etc.

19. It could also be argued that part of these illegitimate debts did not serve the development needs of African countries. Instead, loans were made by Western former colonial powers to sell their outdated machinery or goods at a price much higher than the international market price. On the basis of this argument, a large proportion of current Africa’s debt can be considered to be illegitimate and therefore, creditors have no right to claim it.

20. The application of this argument will require the conduct of audits in individual countries. These audits will have to look at the various legal details of loan contracts. These include (1) the appropriate contracting party for government debt; (2) the equitable sharing of losses from state guaranteed private commercial debt; (3) the provision to invalidate debt contracts following corrupt practices; (4) the invalidation of contracts due to misrepresentation; and (5) the effectiveness of arbitration procedures.

21. As regards the financing of debt cancellation, participants were of the view that the use of IMF gold reserves was one possibility. They encouraged African governments to request a “re-evaluation or sales” of IMF gold reserves. This suggestion is based on an estimation by many experts that the sale of half of IMF gold reserves would more than fund all the additional relief needed for “topping up” and financing the remaining HIPC countries.

22. Participants stated that the request for debt cancellation also applies to non-HIPC African countries. In that context, they recalled that in order to improve its treatment of the debt of non-HIPC countries, the Paris Club adopted in October 2003, the recommendations of the G8 meeting held in Evian/ France in June 2003. These recommendations aimed at:

- Better taking into account debt sustainability considerations.
- Tailoring Paris Club debt treatments to the financial needs of the debtor countries over time.
- Contributing to the efforts to make the resolution of crisis more orderly, timely and predictable.

23. Despite these efforts by the Paris Club creditors, participants suggested considering Africa’s debt as being **indivisible**. Therefore, debt cancellation will also be requested for non-HIPC countries. If creditors do not accept that request, African governments should ask for a “moratorium” on the debt owed by this group of African countries. The period for such a moratorium should be at least 25 years.

4.2 Steps Required After Debt Cancellation

24. Participants warned that the solution of Africa’s debt problem should not be seen as a panacea. In order to avoid a repeat of the current debt crisis, bold steps will have to be taken by African countries. In that regard, they urged African governments to pursue their efforts aimed at (a) reforming and diversifying

the economies of their countries; and (b) creating a favorable environment for private sector business and reducing the vulnerability of the economies vis-à-vis external shocks.

25. Participants expressed the view that adequate legal and regulatory frameworks, as well as transparency in public administration were required in order to recover in a lasting manner from the debt crisis. They encouraged African governments to pursue their privatization efforts and to promote the involvement of an efficient private sector in productive activities.

26. Participants thought that an improvement in debt management should be given high priority by governments across Africa after debt cancellation. To that end, a number of institutional reforms will be needed. Particular attention will have to be given to a strengthening of borrowing policies. At the same time, the allocation of borrowed resources will require a thorough analysis and a sound economic or financial justification. The promotion of regional investment projects will help overcome problems related to the small size of markets and the lack access to seaports (land-locked countries).

5.0 Closing

27. In closing the workshop, the Commissioner for Economic Affairs of the African Union expressed satisfaction at the atmosphere which prevailed throughout the deliberations. He thanked participants for their contributions to the formulation of the recommendations which, he hoped, would help find a lasting solution to the recurrent problem of Africa's external debt.

Annexe I**LISTE DES PARTICIPANTS A LA REUNION SUR LA DETTE EXTERIEURE****LIST OF PARTICIPANTS AT THE MEETING ON AFRICA'S EXTERNAL DEBT**

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Annex II

Statement by

Dr. Maxwell M. Mkwezalamba
Commissioner for Economic Affairs
African Union Commission

Delivered at a Workshop on Africa's External Debt

21 – 22 March 2005

Addis Ababa, Ethiopia

Distinguished Participants**Ladies and Gentlemen**

It is great honour and privilege for me this morning to address this important workshop on the Africa's external debt, on behalf of the Chairperson of the African Union Commission, His Excellency Professor Alpha Oumar Konare. Please allow me to thank you for responding positively to our invitation to attend this workshop. I would also like to take this opportunity to welcome all of you to Addis Ababa, Ethiopia, and of course to the African Union Commission. I hope that you will find an opportunity to learn more about the African Union during your short stay here.

The issue of Africa's external debt is one of the major concerns of the African Union Commission and it has been recognized as one of the major obstacles to human development with Africa's external debt being probably the most unsustainable in the world compared to that of other developing countries. It is with this view that the African Union Commission has put, as one of its goals, the search for a lasting solution to Africa's external debt problem.

Several solutions have been proposed at both domestic and international levels to enable Africa get out of its indebtedness. These include successive debt rescheduling by the Paris and London Clubs; solutions to debts owed to banks (release of "new money"); the Baker Plan; outright debt cancellation, debt-equity swaps, bilateral solutions; and recently, the enhanced Highly Indebted Poor Country (HIPC) initiative. The impact of these solutions to Africa's external indebtedness has, however, been very limited. Rather, the Continent's external debt has been spiraling both in absolute and real terms and thereby depriving it autonomy in the management of its economic destiny. This worrying and indeed alarming situation has generated reaction in various circles (religious, academic, civil society, etc.), calling for outright debt cancellation. The African Heads of State and Government have echoed this call for outright debt cancellation for Africa since the Lomé Summit held in 2000.

Distinguished Participants**Ladies and Gentlemen**

The effects of debt need not be over-emphasized. The International Community is an absurd situation where poor countries are sustaining economies of rich countries through repayment of debt. All of us can agree that with most of the foreign exchange earnings being spent on debt

servicing, African Countries are experiencing the worst poverty than ever before. As a result, most Governments in Africa are failing to provide the basic social services to the population.

It is a fact that resources are literally being drained away from poverty reduction activities and basic social needs to debt services. Most African Countries spend millions from their earnings to pay creditors at the expense of national development. Furthermore, debt servicing at any level is incompatible with attaining the United Nations Millennium Development Goals (MDGS) in most African Countries.

Distinguished Participants

Ladies and Gentlemen

Recent studies indicate that over 48 African Countries spend approximately US\$13.5 billion every year repaying their debt to rich foreign creditors. These debt repayments divert resources away from the provision of basic social services such as health care and education, and fundamentally undermine African governments' efforts to promote sustainable development. The failure to resolve Africa's external debt means that thousands more lives would be lost every day due to HIV/AIDS and Poverty conditions.

In view of the aforesaid, it is necessary to have a common African position on the problem of Africa's external indebtedness and what needs to be done by Africa and the international community. In this regard, the African Union Commission is holding this meeting of experts and civil society on the issue. The recommendations of this meeting of experts are expected to feed into a meeting of Ministers of Finance and Planning scheduled to be held in Dakar, Senegal, in May 2005. The discussions and recommendations of the meeting of Finance and Planning Ministers will then be submitted the July 2005 African Union Summit.

It is pleasing to note that this workshop will, among other things, explore modalities for reducing Africa's external debt. These include: a discussion of the magnitude of the debt problem facing Africa; a discussion of a range of debt reduction scenarios for Africa; and making recommendations for the attention and consideration of African Heads of State and Government during the July 2005 African Union Summit.

Africa should speak with one voice through the Africa Union to have the bargaining power it needs in the international negotiations. African Countries cannot individually make an impact in these international negotiations. And failure to change the basic approach to resolving Africa's external debt problem is a crippling blow to Africa's economic prospects as well as its efforts to address its urgent needs such as combating the HIV/AIDS pandemic and poverty reduction.

In light of Africa's outstanding debt and the enormous social and economic costs associated with it, Africa needs to call for total debt cancellation. The enhanced HIPC initiative is clearly inadequate to remove Africa from its indebtedness. On the other hand, lasting solutions to Africa's external debt will require good economic governance on the part of Africa countries. African countries, through the African Union, should also devise mechanisms to solve problems relating to conflicts and civil wars in Africa, which have greatly contributed to the prevailing poverty and debt problems in the Continent.

That is, as we call for total debt cancellation, African countries also have a role to play in ensuring that Africa's debt situation becomes sustainable. It is, therefore, my sincere hope and that of the African Union Commission that this workshop will need only discuss what needs to be done by the international community to solve Africa's indebtedness, but also what African countries need to do.

With these few remarks, it is my great honour and privilege to declare this workshop officially opened. I wish you fruitful deliberations and look forward to receiving your report.

Je vous remercie de votre aimable attention.

Plein succès à vos travaux!