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In a world of plenty, poverty can and must be eliminated by changing the structural imbalances that create and maintain impoverishment in Africa and around the world.” African economist, Samir Amin.

Chairman Frank, Ranking Member Bachus, distinguished members of the House Committee on Financial Services, I would like to thank you for the opportunity to testify in this hearing on H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Relief of 2007.

My primary focus today will be to explain why I feel so strongly that debt cancellation should be granted without the harmful conditions of past debt initiatives. My testimony is based on both my professional and personal experience. I’m originally from Liberia and have seen firsthand the painful burdens of debt on my own family.

Congress and the President of the United States took a huge step forward 10 years ago when they stated that it was a moral imperative to give poor people in poor nations debt relief. Political leaders, included those in Congress, stated emphatically that it was simply wrong that poor people be burdened with repaying debts incurred by rich and often irresponsible leaders. Yet today we recognize that the bold steps for debt relief of a decade ago did not go far enough. Previous schemes left many countries out and burdened eligible countries with onerous and harmful conditionalities. The Jubilee Act before you today will extend debt cancellation to all impoverished countries that need relief to meet their Millennium Development Goals. On average, low-income countries spend about \$100 million a day just to pay the interest on their external debts, vital resources that could instead be spent on education, healthcare, housing, and other essential services. The Jubilee Act would bring relief to many of these countries where debts were accrued by dictators and have been paid many times over through high interest payments. The Jubilee Act would also remove harmful conditions attached to debt relief schemes of the past.

In this testimony, I will:

- 1) Share a personal story of the impact of debt;
- 2) Review the harmful impact of current debt relief conditionality; and
- 3) Present recommendations for more significant debt cancellation

I. Human Costs of Debt and Conditionality:

Anna's narrative

Please allow me to begin by sharing the story of my 22 year old cousin. For the sake of this testimony and to protect her identity, I'll call her Anna. I met Anna two years ago when I went home to Liberia after the decades of war. Anna had also just returned home after living much of her life in a refugee camp in Ghana called Bujumbura. At 20 years old, Anna had already experienced more of the direct impact of debt and conditionalities than a room full of economists. My aunt and uncle had left Liberia for Ghana on foot when the war started in 1990. Anna was just 5 years old. The ruthless dictator Samuel Doe accrued debt as he used U.S. taxpayer monies in the form of Reagan era "loans" to train and equip an army that he then unleashed, mostly on innocent civilians. Charles Taylor unseated Doe and continued the ruthlessness until over 250,000 Liberians had been killed and Doe's debt had ballooned to \$3 billion. Anna and many of my relatives spent the decade of the 1990s in and around that refugee camp in Ghana.

Ghana was approved for its first Economic Structural Adjustment Facility loan in May 1995. In that year the agreement led Ghana to begin selling (i.e. privatizing) 14 state owned enterprises. Massive job losses at Ghana airways, Ghana Railways, and the Electricity Company of Ghana, among many others, were the result. With Ghanaians forced out of jobs, the job market for Liberian refugees was of course much worse. My aunt and uncle could not find work in spite of their graduate degrees. Little Anna, then barely 10 could no longer go to school. This was because the conditions of the International Financial Institutions had suggested that the Ghanaian government impose user fees on the students at community schools. At the age of 13 my cousin practically lived in the streets. On Sunday afternoons, as my aunt went to church, Anna and other teenage girls would parade around the camp, scantily clothed. Waiting for older men, many of whom did not live on the camp, to solicit them. This was their "employment," since school was no longer an option. When we met two years ago, Anna had two children, the eldest born when she was just 15. Anna returned to Liberia, ready to start her life anew. But as Liberia repays its debt to the international financial institutions, there are no functioning hospitals. I fear that Anna may be one of the many undiagnosed yet living with HIV/Aids. And the same conditionalities that denied her an education may now keep her from treatment. Unless Liberia is able to spend its scarce resources on health, education and basic services for its citizens, Anna's children will continue to pay the heaviest price for the debt of dictators and the conditionalities of the international financial institutions.

II. The Harmful Impact of Current Debt Relief Conditionality

Anna's story can be told in country after country throughout the continent. The story of debt in Africa begins in the late 1960s and it is not a pretty story. In many countries, undemocratic governments began borrowing large amounts of money from official

sources (governments and multilateral institutions) and from other private sources. Much of this money went into boondoggles that benefited large multilateral corporations, built military machineries, or massaged the egos of dictators; small amounts went into real projects that benefited Africans.

The debt crisis emerged in the 1970s and 1980s when interest rates were high globally and commodity prices were low, and country after country experienced difficulties in repaying the debts. At this stage, the creditors invariably sent in the International Monetary Fund to press for countries to shift policies towards exports and towards privatization of key state assets, all with the goal of getting the loans repaid. The poor and the environment paid a heavy price.

Happily by the late 1990s, Jubilee and other movements won the debate that much of this debt should be cancelled. And, governments at the G-8 meetings and elsewhere devised a Heavily Indebted Poor Country (HIPC) initiative and Multilateral Debt Relief Initiative (MDRI) to carry out the debt relief. To participate in these debt initiatives, a country must qualify as a low-income country and follow a World Bank mandated Poverty Reduction Strategy Paper and an IMF program called the Poverty Reduction Growth Facility (PRGF). There were however two big problems: First, many poor countries were left off the list of eligible countries. Second, eligible countries were forced to commit to a set of substantial and onerous reforms commonly called conditionalities. Implementation of conditionalities was necessary to advance through the process toward an eventual completion point and debt relief.

A) Limited countries selected for HIPC

The World Bank and the IMF manage the HIPC initiative covering bilateral, multilateral, and commercial debts. To be eligible, a country must be poor enough and indebted enough – defined as having debts worth 150% of exports or for countries with heavy export-based economies, more than 250% of government revenue. To enter the scheme, a country must comply with an IMF program for 3 years. It then is eligible for debt “relief” – defined as paying less service to a number of its debts, although no debts are actually cancelled. A country reaches “decision point” only when key conditions are met, that is the list of conditions that country must meet prior to getting debts cancelled completely (completion point).

B) Conditionalities

The countries going through HIPC have on average between 20-30 trigger conditions they must meet. These vary by country but generally include structural reforms that tell countries how to run various sectors of their government. One key area of reforms enforce privatization of certain industries or utilities. This is often the selling off of natural resource rights or of core services like water, telecommunications, schools, and hospitals, vital services that should fall under the role and responsibility of any sovereign state. Of the countries going through HIPC now, Burundi, Chad, Gambia, Sao Tome and Principe, and Sierra Leone have all been told to privatize as

condition for debt relief. A 2006 study by the European Debt and Development Network found that typically one in five of the structural conditions in each IMF program involves privatization. The Gambia offers perhaps the best example. The Gambia pays more than \$25 million a year in debt service. With an economy heavily dependent on peanuts, the IMF told the Gambia that it must privatize its peanut industry. Well the Gambia had done just that in 1993 when it sold the state peanut company to a Swiss-based multinational corporation. The sale led to the loss of over 10,000 jobs and after privatizing, the Gambia became a net importer rather than a net exporter of peanut based cooking oil, directly impacting the health and nutrition of people throughout the country. The Gambian government re-nationalized the industry in 1999. Since then, the IMF has been pushing re-privatization, in spite of the direct experience of this flawed policy. (See The Gambia: 2005 Article IV consultation Staff Report, IMF, 2006)

In the case of Mali which had conditions tied to their Poverty Reduction Strategy Papers and to their PRGF arrangement with the IMF, conditions of privatization included water, banking, telecommunications, and agriculture especially companies dealing with cotton, Mali's biggest export earner. Mali sold off its water rights to the French company SAUR in 2000. The process forced impoverished communities to pay for access to clean water. In a few short years, there were numerous complaints of mismanagement and claims by the Malian government that the company had failed to run the water services according to contract. By 2005, the Malian government re-nationalized water and were seen as "off track" by the IMF.

Another key area of imposed conditions deregulates trade, banking or financial sectors. A 2006 report prepared for the Norwegian government as a background to the Oslo Conditionality conference found that, " Liberalization conditionalities are far less common in current IFI programs than they used to be, however they still figure in a significant number of programs."

Other conditions imposed relate to macroeconomic targets such as maximum levels of inflation and of public spending and limits on public wage bills. Through these conditions, the IMF controls how much a country spends and on what.

These conditions are inherently undemocratic as they give more power and control over key economic decision-making to external actors instead of the citizens and their elected officials in the developing world.

Yet if a country does not meet these conditions, the IMF can declare them, "Off-track" which would suspend interim debt relief and remove the option of reaching completion point and final debt cancellation. Of the 9 countries at "decision point" in HIPC now, most have been off track at some point.

The IMF sits as the general arbiter of economic policies for countries saddled with burdensome debts. Not only are their debts not being cancelled but the policy

conditions imposed for debt relief are creating fundamentally unsustainable economies and undemocratic political systems.

III. Recommendations

I urge this committee to support the efforts of the Jubilee Act to Fix Flawed Debt Relief; Cancel all odious debts; and - Eliminate the threat of debt vulture funds

A) Fix Flawed Debt Relief by removing harmful conditionalities

This committee can take immediate steps to fix flawed debt relief schemes by supporting this bill and removing harmful conditionalities attached to debt relief. These conditions have held back the continent's growth and prosperity. Under the guise of debt relief, the international institutions found a foolproof way to impose multinational corporations on Africa's water, electricity, education, and health systems, bringing higher fees and even further impoverishment to the region.

The 2005 report of the Blair Commission for Africa stated that, "Many Africans feel [that creditors] are now using debt as a lever to dictate policy to the country". The UK government hosting the 2005 G-8 meeting went further as they stated that policy conditions attached to aid are "inappropriate and ineffective". Acknowledging this, the G-8 communique promised to let countries determine their own economic development. Yet 2 years later, countries are still being told that they must meet economic policy conditions to get debt cancellation.

In a recent report, "Cut the strings", the Jubilee Debt campaign, Action Aid and Christian Aid stated that "debt cancellation is [still] being used as a lever to force through policies chosen by institutions controlled by the rich world, a process that undermines democracy, delays debt cancellation and has often worsened poverty". Now is the time to examine critically the factors contributing to debt and the downward pressure of African economies. Removing harmful conditionalities is a critical step in addressing the root issues of Africa's debt problems.

B) Cancel Odious Debt – Africa has already paid enough!

The UN Conference on Trade and Development, in a comprehensive report on debt sustainability, noted that between 1970 and 2002, Sub-Saharan Africa received \$294 billion in disbursements, paid out \$268 billion in debt service and yet remained straddled with a debt stock of some \$210 billion.

Ten years after implementation of limited debt relief, \$100 million a day is squeezed out of Africa in debt service payments to the rich world. This daily transfer siphons off scarce resources to tackle HIV/AIDS and other priority concerns of the continent. In fact, African nations are still paying more in debt service payment to the United States and

other creditors than they receive in aid, new loans, or investment. In addressing Africa's struggle for relief from its onerous external debt, advocates of global justice have raised a critical question, "Who owes whom"?

What is needed is acknowledgement and cancellation of all odious debt

Under the principle of odious debt, debts are regarded as illegitimate when the creditor is aware that the loans to governments are made without consent of the people and not spent in their interests. The U.S. was the first to use this doctrine repudiating Cuban debt owed to Spain in 1898. More recently, the Bush administration has used the same argument for Iraq. Africa's odious debts, in Liberia and elsewhere, need comprehensive and complete cancellation, with no onerous conditions.

c) Eliminate the Threat of Debt Vulture Funds

In countries like Zambia and 22 other sovereign states, a new set of rich actors is undermining the moral promise of debt cancellation. These "vulture funds" threaten the gains of debt relief as they enrich themselves through predatory litigation against impoverished countries.

Congress should establish internationally binding legal constraints on the operations of vulture funds that prey on impoverished countries and undermine international debt relief initiatives. Congress should also work to apply legal constraints and if needed prosecute fully all aspects of corrupt practices linked to such cases.

Thank you for convening this critical hearing and for your sustained leadership on this issue. Debt has kept Africa in bondage long after the end of slavery and colonialism. This legislation could help break those chains. It won't solve all of the problems of the world's poorest countries. And it won't give my cousin her childhood back. But it will give these struggling nations a better chance of building strong, secure and healthy societies.