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Human Development Advocacy
For Debt Relief, Aid, and
Governance

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Task Force on Debt Restructuring and
Sovereign Bankruptcy

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HUMAN DEVELOPMENT ADVOCACY FOR DEBT RELIEF, AID, AND GOVERNANCE

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This chapter looks at some of the policy positions that underpinned the Jubilee 2000 campaign. While the arguments of debt campaigners were, at the time, dismissed as the politics of naïve idealists, they soon became part of the new realism in official debt policy. How did this shift come about? And, going forward, what are the key features that can usefully inform official aid and debt policy frameworks?

The impulse behind the international Jubilee 2000 campaign was fundamentally one of social justice. In the UK, where the campaign first began,² it was driven mostly by the Churches and faith-based aid agencies moved by moral and ethical considerations. It was about bringing to an end the perceived global economic injustice of those in developing countries with the least resources, saddled with unpayable debts, having their development prospects thwarted by the diversion of scarce resources to those in the developed world that already had the most. The imagery drawn on in some of the campaign's earliest publications was of a bonded servitude, enslavement to an unjust economic order.³ While its moral call was grounded in some analysis of the flows of finance from the world's poorest countries to the world's richest creditors, it was essentially very much a campaign driven by moral imperatives.

The campaign also coincided with a large up scaling of resources that non-governmental organizations (NGOs) active in international development dedicated to enhancing their own policy or analytical capacity. It was this increased investment in public policy analysis that produced a new alternative set of policy prescriptions that helped underpin the public campaigning messages with a robust analytical justification. And, as we shall argue in this chapter, it is from this smaller policy print on the broader Jubilee 2000 campaign canvass that some instructive pointers emerged that can usefully inform future approaches to the resolution of debt crises, and some important aspects of the management of international aid and development finance.

The first section of this chapter considers the evolution of the alternative “human development approach” to debt sustainability analyses. It argues that human development imperatives need to be considered further upstream in the identification and resolution of debt crises. It asserts the basic point that good economics and social justice are not incompatible. The second part of this chapter looks at some of the unforeseen consequences of the debt campaign. It looks at some of the unique features of the decision-making and management of the additional resources released from debt-servicing and argues that, in some of the eligible heavily indebted poor countries (so-called “HIPC’s”), the debt relief process gave rise to new in-country political practices where a more inclusive politics emerged when it came to determining how the proceeds from debt relief were to be distributed. And it is this more transparent and inclusive politics – where civil society and faith-base groups, the private sector and parliamentarians had influence at key decision-making points – that suggests ways to overcome some of the weaknesses in traditional aid relationships. Indeed, one may say that these two demands – for human development dimensions to be considered in calibrating the levels of debt cancellation needed and the more inclusive politics in determining how the proceeds are spent – have been some of the most important contributions of the international civil society mobilization on developing country debt. Neither should be lost by policy makers.

² While the “Jubilee 2000 campaign” began in the UK, it was preceded by other debt campaigns most notably and first by the *Freedom from Debt Coalition* in the Philippines.

³ For example, Ann Pettifor, *Debt the most Potent form of Slavery*, 1995.

1. CHANGING THE DEBATE ON THE DEBT OF POOR COUNTRIES, 1996-2005

The first official recognition from the official creditor community that a comprehensive approach to debt relief for some low-income countries was needed came in 1996 with the launch of the Heavily Indebted Poor Country Initiative. While it took years before the policy delivered debt reductions, the policy marked the recognition that the salami-slicing approach to debt relief that saw successive exercises in deepening the terms of debt rescheduling was insufficient to overcome the debt overhang and economic stagnation.⁴

1.1. The Deficiencies of the HIPC Initiative's Orthodoxies

The broad Jubilee 2000 critique of official debt policy was that the creditor response – the HIPC Initiative – was producing too little debt relief for too few countries and at too slow a pace. They argued that creditor policies were dominated by concerns over the costs of deeper, wider and faster debt relief. In essence, it was a process that produced the debt relief that creditors were willing to afford rather than the reductions debtor countries needed. But it was the more in-depth critical policy analysis that identified the key structural weakness in the design of the HIPC Initiative: its use of an inappropriate analytical tool to assess the “sustainability” of a country’s debt burden. And it is the debate over debt sustainability that marks the key terrain of policy debate between the sentinels within the official creditor community, the World Bank and International Monetary Fund (IMF), and the Jubilee 2000 debt campaign.

For the Bank and Fund’s HIPC Initiative, the assessment of the threshold of a country’s debt sustainability was a question of establishing a level of debt stocks and debt-servicing flows capable of being repaid without “an unrealistically large future correction to the balance of income and expenditure.”⁵ In essence, that judgment was based on an assessment of a country’s foreign exchange earning capacity. And one can see the rationale for selecting this criterion. The debts were largely denominated in foreign exchange – especially US dollars. Any assessment of the degree to which a country had the capacity to meet its debt-servicing obligations should therefore bear some relationship to its foreign exchange earning capacity.

And the approach is broadly consistent with the IMF’s core mandate and Articles of Agreement – *viz.* to ensure balance of payments equilibria between countries and to ensure their external viability. A central tenet of what the IMF views as a country’s “external viability” is precisely the capacity of its foreign exchange reserves to cover short term import bills. So, it is an attractively simple proposition to assert that the analysis of the sustainability of a country’s debt stock or its debt-servicing burden is measured against its foreign exchange earning capacity – in other words its export

⁴ The revision of standard debt rescheduling terms of government credits go as far back as the 1988 so-called ‘Toronto terms’, named for the Summit of the Group of 7 at which it was agreed. Successive summits in London (1991) and Naples (1994) also reached agreements to revise “traditional” debt relief. The agreements provided, respectively, 33 percent (Toronto terms), 50 percent (London terms), and 67 percent (Naples terms) debt relief in net present value (NPV) terms on eligible debt (see Cosío-Pascal, this volume, for additional details).

⁵ IMF, “Assessing Sustainability,” Policy Development and Review Department, May 28, 2002 (<http://www.internationalmonetaryfund.com/external/np/pdr/sus/2002/eng/052802.pdf>), p. 4

income. And so the HIPC Initiative's key analytical criterion of *Net Present Value of debt -to-Exports* ratio was deployed.

However, choosing foreign exchange capacity as the key analytical benchmark for the HIPC Initiative was a critical design flaw. By and large, most low-income countries vulnerable to debt stress are characterized by an over dependency on one or two commodities. Twenty two HIPCs depended on just 3 commodities for 70 percent of their revenues from exports.⁶ On top of the challenge presented by high commodity dependency has been the volatility of their export earnings and, for the most part, the secular decline in prices. According to UNCTAD, in the period leading up to the design and implementation of the HIPC policy, "the duration of slumps [exceeded] that of booms by nearly a year, and ... the magnitude of price falls in slumps [was] slightly larger than that of price rebounds in subsequent booms, with the rate of change of prices in booms being typically faster than the rate of change of prices in slumps."⁷

So earnings from exports for most low-income countries are highly volatile income streams and make for wholly unreliable predictors of countries' medium term, let alone longer term, capacity to meet their debt-servicing obligations. Indeed, the warranted debt relief that a country received under the HIPC Initiative depended a lot on where it was in the commodity price cycle when the decision on relief was taken. Uganda has twice faced its debts moving into unsustainable positions after graduating – through the first and then the "enhanced" versions of the HIPC Initiative – as a result of commodity price declines. It is worth noting that the Fund's response to Uganda's predicament was to offer more concessional finance, in other words, more debt.⁸

However, the difficulty with the HIPC debt relief criteria is deeper than the technical complexity of projecting future economic changes and therefore of foreign exchange availability. As we shall argue, the problems arise because it is not appropriate to base the calculation of debt sustainability entirely on foreign exchange earnings. Yes, low-income countries have to meet their debt servicing obligations in foreign currencies. But, crudely put, it is not farmers exporting primary commodities that repay the debts. It is governments that do it, and do it out of tax revenues or aid flows or reduced alternative expenditures.

The key deficiency of the HIPC Initiative's single and uniform analytical criterion for the amount of relief to accord is that it bypasses the possibility of adjusting debt sustainability analyses according to the revenue mobilization capacity available to government.⁹ The HIPC Initiative's debt sustainability analysis bears little or no relation to the *capacity* of governments to generate revenues consistent with meeting their external repayment obligations.

⁶ UNECA, Expert Meeting on Debt, Dakar, November 2003.

⁷ UNCTAD, *Economic Development in Africa 2003*, p. 16.

⁸ Conversation with IMF official at the Annual Meetings of the World Bank and IMF in 1998.

⁹ While the HIPC Initiative did have a fiscal criterion of 200 percent debt-to-revenue for countries with relative trade openness, the qualifying ceilings were too narrow to fit most low income countries. Indeed, it was the French government's insistence that Côte d'Ivoire qualify for debt relief that produced a contorted debt sustainability criterion designed to fit this singular purpose (<http://www.imf.org/External/NP/hipc/2002/civ/civpd.pdf>).

Indeed, as Jeffrey Sachs has pointed out,¹⁰ it is theoretically possible under the HIPC approach for a country to be judged to have sustainable debt thresholds without having a single cent left for spending on health, education or water and sanitation. By ignoring an indebted government's fiscal constraints, the HIPC Initiative gave no consideration of the competing domestic demands on government expenditure.

Instead, the HIPC Initiative's overarching requirement is that debtor governments' expenditure priorities must first satisfy their debt-servicing obligations. And, as highly aid-dependent countries, this matters for HIPC countries because the aid system itself reinforces the conditionality and puts meeting debt servicing payments at the top of the hierarchy of aid recipient government spending priorities. Donors insist that aid-recipient governments meet standards of "responsible borrowing" as a prerequisite of debt relief and new aid flows. And prior to gaining any debt relief under the HIPC Initiative, meeting debt repayments to the Bank and Fund were non-negotiable. This demand reached new absurdities when many donor aid allocations were in the form of so-called "defensive lending" where grants and loans were used to satisfy existing demands for external debt-servicing. In effect, some donor ministries were repaying debts owed to ministries in their own government, as well as to the Bretton Woods institutions, all routed through the coffers of the world's poorest countries. Using their self-styled characterization as official "creditors of last resort" as the basis for the claim to have "preferential creditor status", the Bank and Fund's demand has been that debtor countries first satisfy their debt servicing obligations to the Bretton Woods institutions before meeting any other expenditure priorities. Debt servicing to bilateral official creditors was increasingly "forgiven" in practice for the poorest countries, although it was a long struggle to get to this point for some Paris Club creditors. The last hold outs were the international financial institutions (IFIs), i.e., the Bank, the IMF and the regional development banks.

In sum, the critical flaw of the Bank and Fund's HIPC approach to sustainability – and one that persists in its current work on the new *Debt Sustainability Framework* for managing low-income country debt and aid flows – is that it excludes consideration of the chief binding constraint on low-income countries' economic development, and therefore of its capacity to repay its debts: the widespread and persistent levels of human poverty.

One could argue that, from a human development perspective, any discussion of the "sustainability" of debt burdens without consideration of the trade-off between meeting debt-servicing obligations and investing in human development priorities is a misuse of the term sustainability. Indeed, the key moment of struggle for debt campaigners was around the rearticulation of a new "policy grammar" of debt sustainability and the effort to promote human development imperatives within considerations of the affordability of low-income country debt. This was at the heart of much of the intellectual thrust of the Jubilee 2000 movement. It is this alternative, "human development approach to debt sustainability" that we consider next.

¹⁰ Jeffrey D. Sachs, "Resolving the Debt Crisis of Low-Income Countries," *Brookings Papers on Economic Activity*, 1: 2002.

1.2. “What Do You Mean by Unpayable Debt?”

To capture some of the learning and legacy of the Jubilee campaign’s development of debt policy it is worthwhile touching on some of the key arguments between creditor officials and campaigners.

The key strap line behind the Jubilee campaign was the call for: *The cancellation of the unpayable debts of the world’s most impoverished countries by the year 2000.* The initial challenge from the Bank and Fund was to demand the campaign to set out precisely “what constitutes unpayable debt?”¹¹

The response from some parts of the Jubilee campaign was to suggest that those countries with high levels of poverty and debt stocks ought to be eligible for debt relief. The retort from some of the more engaged officials at the international financial institutions¹² was that this was too crude a criterion by which to determine the range of countries and the level of debt stocks eligible for cancellation. For instance, they argued, Brazil had high levels of poverty but, also, with the world’s most unequal income distribution (as measured by the *Gini* coefficient), a large class of super-rich was not contributing to the poverty reduction effort. Any moves to write off Brazil’s debts would require allocating large amounts of finite international development resources that would ease the pressure to enhance the Brazilian government’s taxation efforts targeted at that class of super-rich. In effect, such a policy would be to divert development resources that should have been targeted at the world’s poor to relieve the pressure to implement a more progressive tax policy.

1.3. The Human Development Approach to Debt Sustainability Analysis

It was partly as a response to the need to develop a more sophisticated and targeted approach that would address the potential revenue capacity of debtor governments that some parts of the Jubilee campaign developed a debt sustainability criterion integrating a government’s feasible revenue with the humanitarian imperative of financing poverty reduction efforts. In 1997-1998, the international NGOs supporting the Jubilee campaign came up with the first systematic attempt to recast the notion of debt sustainability around human development imperatives.¹³ The proposal made two innovations.

The first was the suggestion that the creditor-debtor hierarchy that put creditor interests at the top of the status quo should be inverted. It challenged the practice of official multilateral creditors privileging their claims, i.e., to have their credit invoices satisfied prior to debtors spending on their poverty reduction efforts.

Instead, it proposed that the “policy grammar” of debt sustainability be recast around the imperative of financing basic human development expenditures. It argued that if financing poverty reduction expenditures should occupy top place in the development financing chain, then it follows that debt-servicing obligations should be secondary and should be sourced from residual finance. That is, the analysis of the level of

¹¹ US Catholic Conference, Seton Hall Debt Conference, 1998 and Eurodad Annual Conference, 1996.

¹² Made at the Eurodad Annual Conference – the Hague 1996

¹³ Henry Northover, Karen Joyner and David Woodward, *A Human Development Approach to Debt Sustainability*, Catholic Agency for International Development (CAFOD), London, 1998

finance available for debt-servicing should be made on that pool of funding left after essential human development investments had been met.

The second component was to anticipate creditor objections that such a model would result in the perversion of debtor incentives to raise their own revenues to finance human development expenditures. The model proposed that there should be some assessment of the feasible net revenue available to debtor governments. In so doing it also took account of the regressive consequences of governments raising revenues from those living in absolute poverty.

The benefit of this so-called “feasible net revenue” approach to analyzing debt sustainability is its calibration and balancing between the capacities of governments to raise revenue, to service their debts and to meet their obligations to finance the most basic poverty reduction expenditures, with weighting between these three fiscal variables favoring human development. The model was based on four assumptions:

1. That it is not reasonable to levy tax on income below the international absolute poverty line – determined by the World Bank to be \$1 per person per day at purchasing power parity at 1985 prices;¹⁴
2. That an incidence of taxation of greater than 25% on incomes *above* this level (i.e. adjusted GDP) – only slightly below the average for the G7 countries – will give rise to excessive distortions in the economy and thus hinder economic development. Therefore given the heavy dependence of HIPCs on indirect taxation this share is set at 25%;
3. That debtor governments must be allowed to put aside the finance needed to meet their populations’ basic human development needs before having revenues subject to debt service demands;
4. That only a limited amount of any remaining revenue should be allocated towards debt service, in order to leave resources for other essential government expenditure. Servicing demands above this level would be inconsistent with debtor governments’ ability to meet their countries’ development needs at “completion point” in the HIPC relief process.¹⁵

There have been subsequent refinements of the original approach. But the broad principle remains: the financing of poverty reduction comes first, followed by debt-servicing. And if there is insufficient finance to satisfy those two expenditure streams, further debt cancellation and aid supplements should be forthcoming.

As well as satisfying the moral and social justice perspectives of the Jubilee 2000 campaign, there was a robust analytical justification underpinning this approach.

Above all, it proposed basing debt sustainability analyses on the, tragically, far more stable variable in low-income country economies – namely, the widespread and

¹⁴ This threshold has been further developed in the *New Economics Foundation* paper *Debt Relief As If People Matter* (Mandel 2006) with suggestions that the more robust income level is \$3 per capita per day

¹⁵ *Ibid.*

persistent levels of poverty. And by structuring the approach to debt relief around the burden of poverty, it utilized one of the key constraints both on the revenue and expenditure sides of low-income country governments' fiscal balance sheets.

By shifting the fiscal dimension into the centre of considerations of debt sustainability, as opposed to the HIPC Initiative's export criterion, it raised the limited capacity of governments to generate sufficient revenue as a block on meeting debt servicing schedules. An approach to debt sustainability analysis that focuses on government revenues allows for a debate on the tradeoffs between on the one hand meeting debt-servicing expenditures or, on the other side, financing key poverty reduction or human development objectives.

By 1999, it became clear to the proponents of this approach to debt sustainability that the achievement of what later would be called the Millennium Development Goals (MDGs) was an international objective fast gaining a groundswell of support among some of the more progressive donor governments. The principles of the achievement of the MDGs embraced in the human development approach to debt sustainability analyses was fast becoming something akin to the "gold standard" of international development cooperation. It made sense to shift the emphases in the articulation of the human development approach to the closing of the MDG financing gap.

1.4. Increasing Consideration of the Human Development Approach

What role did this alternative human development approach to debt sustainability play in shifting official thinking beyond the HIPC framework? The attribution of the impact of external advocacy to changes in official policy is always difficult. And discerning the causality is made more difficult when much of the art of advocacy is about cultivating a sense of ownership of the alternative proposed policy positions among key decision-makers.

What is clear is that while the human development approach to debt sustainability was never established in official policy, it did set a benchmark by which to judge the changes in official policy. So while the so-called "enhanced HIPC Initiative" agreed at the Summit of the Group of 8 (G8) in Cologne in 1999 was thought by some of the more progressive creditors to be the best debt deal that could be hoped for, there was an alternative analysis of sustainability that provided the basis for a credible critique and renewed calls for additional debt cancellation.

The Cologne Initiative and its subsequent modified version of the "enhanced" HIPC Initiative, brought debt sustainability thresholds down from 200 to 150 percent of debt to exports, and was complemented by some of the major bilateral creditors, led by the US and followed by the UK and others, agreeing to a 100 percent cancellation of HIPC graduates' bilateral debts. This left the World Bank and IMF as the largest creditors to most of the HIPCs and now the main targets of the Jubilee campaign.

The IMF and World Bank were well aware that the major bilaterals' move to a total cancellation of eligible debts of post-completion point HIPCs would lead to debt campaigners turning their advocacy attention towards the outstanding debts owed to the IFIs. With inevitable pressure building on the Bank and Fund to follow suit, the IMF in particular, mounted a vigorous campaign against going up to 100 percent

cancellation on its debts. Together with the World Bank, it dedicated a special briefing note on their web pages to setting out the case against going further. It argued that multilateral lending was a “unique source of concessional finance for the world’s neediest countries” and 100 percent relief in the case of the Fund would “not only eliminate PRGF lending, but also impair the Fund’s financial integrity.”¹⁶

Even some more candid creditor officials within the G8 were fixed in their view that it would not be possible to consider official policy endorsing a complete debt cancellation of the IFIs’ debts.¹⁷ Because debt cancellation is, once committed, irrevocable, any package of total cancellation would be ceding the possibility of retaining any control over debtor country policy. They argued that the traditional tool of conditionalities to leverage the donors’ preferred policy reforms would be lost. In sum, there was a consolidated resistance to giving more debt relief.

At the same time, this new post-2000 debt landscape also brought about a re-evaluation on the part of some international NGOs of the value of continuing to give their support to the Jubilee campaign. They regarded the enhanced HIPC Initiative and the new offers of bilateral debt write off as the most that could be won from the international community. While there were some notable exceptions among some international NGO aid agencies,¹⁸ the years after 2000 saw a little-reported downsizing of the campaign with some of its major supporting agencies turning away.

Those organizations supporting the Jubilee campaign drew on the alternative approach to debt sustainability as a solid analytical basis that justified the pursuit of a 100 percent cancellation. Their analysis was also useful for those advocating further debt relief in terms of mobilizing additional development resources to meet the international development goals for non-HIPCs. The enhanced HIPC Initiative left out a significant group of debt stressed low and middle income economies where their growth trajectories, high degree of dependency on one or two commodities and the poor quality and modest volume of their aid receipts all pointed to economic and social failure. And furthermore, the HIPC Initiative’s instrumental export criterion excluded a number of low-income countries – for example, Lesotho and Bangladesh – from benefiting from debt relief altogether even though they had accumulated large debt stocks and were strained by wide and deep levels of human poverty.

With the United Nations Millennium Summit in September 2000, the donor governments committed themselves in a very public way to achieving what would come to be called the MDGs. However, the donors’ rhetorical commitment to reaching the MDGs sounded increasingly hollow as long as there were few or no prospects of increasing aid volumes, debt relief or championing a pro-poor international trade policy. By articulating a credible case for more debt relief in terms of financing the internationally agreed poverty reduction objectives enshrined in the

¹⁶ PRGF is the Poverty Reduction and Growth Facility, the Fund’s concessional lending window. The assumption was that donors would not cover 100 percent relief and that “additional sales [of IMF gold] would put at risk the confidence of members in the Fund’s solidity” (IMF and World Bank Staffs, “100 Percent Debt Cancellation? A Response from the IMF and the World Bank,” July, 2001 (<http://www.imf.org/external/np/exr/ib/2001/071001.htm>)).

¹⁷ Discussions with senior UK political advisers.

¹⁸ In the UK, while the larger aid agencies scaled down their support for the campaign, initially CAFOD, Tearfund and the World Development Movement remained its main institutional support base.

MDGs, the momentum behind a continuing international campaign for debt relief would be regained. And, the alternative approach to debt sustainability served as a ready-made analytical framework with which to challenge the official assurances that HIPC's debt stocks had moved into sustainable positions.

There is evidence to suggest that the campaign and its development-centered analytical approach did help build the critical mass of political pressure that pushed official donor sentiment to realign the purpose of debt relief behind explicit development objectives. This was a conceptual break from the original conception of the HIPC Initiative's debt sustainability framework as purely an issue of returning countries to a position where they were able to meet their debt servicing obligations. Debt relief was now positively articulated as one of the means for making "progress towards attaining the Millennium Development Goals."¹⁹

Indeed, the point was directly addressed in the Monterrey Consensus that the United Nations International Conference on Financing for Development adopted in March 2002. More precisely, the heads of state and government and other senior officials who gathered in Monterrey agreed that "Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration."²⁰ Translating that commitment into action at the IMF and World Bank was not straightforward, however, despite the intimate involvement of both institutions in the Monterrey process.

While the Bretton Woods institutions undertook a joint review of debt sustainability in low-income countries in the summer of 2002, the staff neglected to take the Monterrey Consensus agreement into account. The joint report of the institutions made reference to the insufficient volume of finance from debt relief for the attainment of the MDGs, which was of course patently obvious and not claimed by any advocates. When the staff met with civil society activists during the Annual Meetings in September, they were pointedly reminded of the international commitment and its omission in their report. Developing countries at the Fund and Bank diplomatically made a similar point in their Group of 24 communiqué, when they asked that "consideration should be given to recent proposals to extend debt relief beyond the HIPC Initiative – including linking debt relief to the MDGs..."²¹ The donor government response, beyond what they had already agreed to in Monterrey, would have to wait a few years.

The African Union, the NEPAD framework (New Partnership for Africa's Development) and some UN agencies also applied this alternative approach in their own analytical work. The Secretary-General adopted the redefinition of debt sustainability as "the level of debt that allows a country to achieve the Millennium Development Goals (MDGs) and reach 2015 without an increase in debt ratios."²²

¹⁹ Gordon Brown, UK Chancellor of the Exchequer, February 10, 2006 Press release (www.labour.org.uk/index.php?id=news2005&ux_news%5Bid%5D=gbg8feb06&cHash=515ade8620).

²⁰ United Nations, *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (document A/CONF.198/11), chapter 1, resolution 1, annex), para 48.

²¹ Communiqué of the Ministers of the Intergovernmental Group of Twenty-Four, Washington, D.C., September 27, 2002, para. 11 (available as Development Committee document DC2002-0025).

²² UN, *In Larger Freedom – Towards Security, Development and Human Rights for All*, September 2005.

And, finally Tony Blair's *Commission for Africa* conceded that: "As an urgent measure, financing should immediately be put in place to provide 100 per cent multilateral debt service cancellation, where this is necessary to achieve the MDGs."²³

In effect, the debt campaigners were appropriating and recasting the language of "sustainability" from the Bank and Fund's original etymology. The IMF and World Bank staffs were no longer able to justify the policy status quo and the denouement for the HIPC Initiative came with the G7 announcing the Multilateral Debt Relief Initiative at the Heads of State Meeting of the Group of 8 in June 2005. In effect, this new framework superseded the increasingly obsolete HIPC approach.

In summary, part of the legacy of the Jubilee campaign was the successful rearticulation of debt sustainability around a broader set of human development objectives. Introducing this human development imperative successfully challenged the claim by official creditors that debtors' meeting their debt servicing obligations was a necessary condition for orderly economic policy and poverty reduction. And the principle asserted is economically and developmentally sound. A country's debt-servicing capacity is tied to its capacity to raise-revenue and this is constrained both by its levels of poverty and the financing of its poverty reduction spending.

The creditor community's imposition of, sometimes, irreversible social costs on the lives and life chances of generations in low-income countries compromised their longer term growth prospects. The creditors' insistence that debt sustainability was a matter of external viability and adequately dealt with by modest debt relief and a return to fiscal discipline was successfully challenged by the Jubilee campaign's policy work. The campaign set the precedent of human development imperatives occupying a centrality in official debt sustainability analyses. While this was never accepted in any systematic form by the creditor community, it is a precedent that needs to be further developed in mechanisms for debt crisis prevention and in any future debt work outs.

²³ Commission for Africa, 2005, p.92.

2. DEBT RELIEF AND GOVERNANCE

As discussed above, the Jubilee campaign was an effort to staunch the unjust outflow of resources in the form of debt repayments from the world's poorest debtor countries to the world's richest creditors. The policy component of the campaign challenged the Bank and Fund's orthodox approach to defining "debt sustainability". But while it was clearly a campaign articulated in terms of pursuing social and economic justice there was another key lesson from the campaign, particularly in the indebted countries themselves, that has potentially far-reaching consequences over and above the debates and policy changes on debt. It was an issue that raised itself in another point of creditor resistance over debt relief and that was the issue of ceding control over development resources to in-country policy-making processes.

Many civil society and campaigning groups in eligible HIPC countries have mobilized around the effort to influence the allocation of the proceeds from debt relief in a way that they have not when it comes to allocations over traditional forms of aid, even when that aid is transferred in the form of direct budget support. Civil society groups in many of the "Southern" debt campaigns challenge their governments on how the resources from debt relief are distributed and managed in a way they do not over the spending of traditional forms of aid. Why is this? And can some of the deeper accountability that characterized the management of the proceeds from the debt relief process be transposed to the wider aid system and the new cycle of lending and borrowing particularly in countries with a high dependency on large aid inflows?

2.1. Civil Society in Country Programs for Allocating Debt Relief

In the new aid landscape, the relevant aspect of the debt relief exercise was the tripartite nature of the negotiations – albeit one with a relatively weak civil society role. Domestic debt campaigners were part of the in-country discussions over how the proceeds from debt relief were going to be distributed. In some instances their participation was as part of the formal apparatus set up by governments. In Uganda, for example, the government set up the *Poverty Action Fund* and invited local debt campaigners from the *Uganda Debt Network* to participate in managing the proceeds from HIPC. In other countries, the forging of strong civil society alliances around domestic Jubilee campaigns – such as in Zambia, Ghana and Tanzania – encouraged the government to build up a more inclusive participatory dialogue with key stakeholders.

And this internal drive for greater accountability in managing debt relief coincided with an emerging development policy consensus that "country ownership" was vital to securing a reform agenda. The HIPC Initiative itself came with the stipulation that civil society participation should influence the creation of national *Poverty Reduction Strategy Papers*. For many groups there was some ambivalence about the desirability of participating in a national planning process when it had been designed and set by creditors.

But the indications are that the participation of domestic stakeholders in determining how debt relieved resources were spent helped to ensure increased domestic pressures for the pro-poor composition of allocations. Poverty-reducing expenditures in the 28

countries that reached the HIPC Initiative's interim "decision point" increased from 6.4 percent to 8.1 percent of GDP between 1999 and 2004.²⁴

The point here is that the decisions over the distribution of finance were made in the context of national discussion and debate. On the whole the news media, political and civil societies in debtor countries were highly informed about the timing, execution, conditions and purpose of debt relief. Influencing the process for determining how that money was spent became that much easier in a transparent and inclusive policy-making environment. It also carried forward, at least in some countries, to monitoring whether the funds were actually being spent as planned. The same degree of transparency and inclusiveness cannot be said about the much larger volume of finance delivered through the aid system. Quite the reverse.

2.2. Donor Government Approach to the Aid Relationship

Even though the current official development consensus has swung behind the argument that "country ownership" is vital to sustaining a reform agenda, there remains, even for some of the most progressive donors, a support for traditional forms of economic policy conditionality.²⁵ And this policy conditionality is increasingly accompanied by spending on governance programs.²⁶ But for almost all donors, the notion of country ownership of aid stops at the level of recipient governments. There is little, if any, attempt at making donor policy and the aid system pro-actively open to influence by systems of domestic accountability or by a wider group of recipient country stakeholders.

Donors have accepted that their rigidities in systems and procedures have and will often take precedence over recipient countries' attempts to devise home-grown development paths. They are beginning to respond to this constraint by attempting to better align, coordinate and harmonize their systems behind recipient country priorities.²⁷ This is clearly a necessary and desirable step towards making aid more accountable to the poor.

Although attempts to design a framework of mutual accountability around the donor-recipient government relationship can bring the accountability for the use of aid resources closer to recipient countries, there remain limitations to the degree to which donors are willing to hold their own performance to account by aid recipients.²⁸ Moreover, there are only limited steps that seek to improve the lines of accountability that stretch beyond the officials from donor and recipient countries. The donors' aid effectiveness agenda stops short of making the aid system itself include and be accountable to the poor. Most donors still retain confidence in cultivating exclusive

²⁴ World Bank, *Debt Relief for the Poorest – An Evaluation Update of the HIPC Initiative*, Independent Evaluation Group, 2006..

²⁵ While some of the more progressive donors are increasingly advocating the disbursement of their aid through recipient government budgets in the form of budget support, there is still the insistence on the prior requirement to fulfill the conditions set out in the World Bank's *Poverty Reduction Support Credit*.

²⁶ For example, between 1998 and 2005, spending on governance by the UK's Department for International Development (DFID) rose 4 percent per annum (*DFID Annual Statistics*).

²⁷ See *Paris High Level Forum on Aid Effectiveness* – www.oecd.org.

²⁸ See Paolo de Renzio, *Promoting Mutual Accountability in Aid Relationships*, Overseas Development Institute, London, January 2006.

relationships with “reform-minded individuals” in recipient governments. They do not see it as part of their remit to hold themselves to account to recipient country institutions or pro-poor groups. And the evidence suggests that this form of exclusive donor engagement where donors pick and “herd” around the “pro-reform minded” elements of recipient government has, historically, produced limited development gains.²⁹

The central problem remains. In countries where there are large inflows of donor aid there is an upward pull of accountability towards the donors. And, it is argued, this form of vertical accounting can skew the accountability of recipient governments away from their accountability to the intended beneficiaries – poor people. Furthermore, this is a trend that is set to continue and deepen if the 2005 commitments of the Group of 8 and European donors on increasing aid are realized.

There is increasing evidence³⁰ that the parallel trend of donors disbursing their assistance through recipient governments’ budgets in the form of direct budget support is deepening the dialogue between donor and recipient officials at the expense of a wider national policy dialogue between recipient government officials and domestic stakeholders – such as sector line ministry officials, civil society groups, national media and so on. The findings suggest that critical decisions and policies, including conditionalities, budget allocations and spending limits, are discussed in fora closed to sector practitioners and line ministry officials, let alone parliaments, media and domestic non-governmental stakeholders.

The continuing demand to satisfy the donors’ fiduciary requirement to account to their own taxpayers will come at the expense of recipient governments’ capacity to hold themselves accountable to their own citizens, unless and until the recipient governments develop the capacity to make selections among different donor offers, accepting some and rejecting others according to national priorities negotiated with the representatives of the intended beneficiaries – impoverished people. In these circumstances, the prospects for political leaderships (and donors) cultivating a developmental state are poor.³¹

2.3. Another Relationship is Possible

The challenge for policy-makers in the new aid landscape is to transpose some of the more inclusive and transparent models of managing debt relief resources to the aid system. The learning from debt relief has been that, in most of the completion point HIPC, the tripartite nature of the decision-making processes – where donors and recipient governments opened the policy-making chain to a wider group of domestic

²⁹ Probably the best account summarizing the limitations of donor capacity to create a developmental politics in sub-Saharan Africa is Matthew Lockwood, *The State They’re In*, 2005

³⁰ ActionAid International and Care, “Where to now? Implications of changing relations between DFID, recipient governments and NGOs in Malawi Tanzania and Uganda,” 2006; Helen Collinson, “Perfect Partners?” See also DFID, “The Performance of Program Aid Partners in Mozambique,” 2004, which reports that sector officials “see its positive sides, but they do not trust the management system to the extent of feeling comfortable with limited and reducing options to negotiate with donors at sectoral level” (p. 34).

³¹ Developmental states can be characterized by a political leadership committed to poverty reduction and responsive to the interests of the poor. Typically they will have built their capacity to diagnose policy bottlenecks and will be sufficiently adept and flexible to respond with home-grown solutions.

stakeholders – helped to ensure the prudent and pro-poor management of development resources. The information on how much finance was being released, how much would be disbursed and who the intended beneficiaries were was widely known and sometimes widely debated.

For now, the signs are that donors are not particularly interested in holding their aid money to account in similar ways to a wider group of recipient country stakeholders. There is a cozy and secretive relationship between officials from recipient and donor countries when it comes to striking aid deals. When challenged to communicate relevant information to wider systems of accountability, the most progressive officials point out that information is disclosed on web pages, a form usually inaccessible but to a few with the resources able to find let alone interpret that information.³²

³² Indeed, as the new century dawned, “computer penetration” reached only three out of every 1000 Africans (see “Africa Goes Online,” *Carnegie Reporter*, Spring, 2001). (<http://www.carnegie.org/reporter/02/africa/index2.html>).

3. CONCLUSION

It is worth recalling that during the height of the Jubilee 2000 campaign, in the exchanges between creditor officials and debt campaigners, the two sides emphasized either the irresponsible lending of creditors or the irresponsible borrowing of debtors to suit their arguments. But in the post-debt relief landscape neither the HIPC Initiative, nor the latest *Multilateral Debt Relief Initiative*, nor the 2005 G8 aid commitments make any provision to safeguard against the accumulation of “unsustainable” or “unpayable” borrowing. Donors too are reluctant to publicize in a format accessible to wider audiences in aid recipient countries anything to do with the volume, purpose or conditions attached to their aid.

The Jubilee campaign north and south introduced some interesting tripartite modalities that addressed precisely the volume, purpose and conditionalities behind the release of development resources. These fora included creditors, debtor governments, and civil society organizations and debt campaigners – debating and, in essence, governing allocations of new revenues. These more inclusive forms of dialogue are wholly absent from the management and monitoring of the new tranches of aid receipts and credit. In the absence of these wider systems of accountability and the strengthening of recipient country “checks and balances” the prospects for the prudent management of development finance and debts do not look good.

The HIPC graduates still remain highly vulnerable economies. Most of those countries have, according to the World Bank’s data, accumulated debt stocks in excess of the HIPC Initiative’s key indicator of debt sustainability.³³

So, in conclusion, some of the inclusive decision-making processes and the inventive analytical approaches that formed as part or as a byproduct of the debt relief exercise and Jubilee campaign have much to contribute to some of the upstream analysis in avoiding and mitigating debt crises and when it comes to the governance of development finance.

³³ World Bank, Independent Evaluation Group, op. cit., p. 33.