

# Three Years into HIPC: What for Ghana

A Presentation to the Legon Economic Students Society  
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Mr. Chairman, Honourable Minister for Finance, Distinguished Panel Members, Invited Guests, Ladies and Gentlemen, First, let me express my profound regret for my inability to be physically present at this event. I miss an opportunity to participate in what will undoubtedly be an exciting debate. I have been held back by a teaching obligation at the University of Wales, Swansea, an obligation I have tried rather unsuccessfully to reschedule. Please accept my apologies.

## The typical scenario

Here is a picture of a typical HIPC country X. Country X is debt distressed. By this I mean, for a prolonged period 10-20 years it has had a hard time honouring its external debt servicing obligations. This is reflected in 3 ways: occasionally or regularly it is in arrears in servicing (paying the interest on) its debt; or it requested the club of bilateral creditors called the Paris Club to reschedule (postpone repayment of) its debt or it has had to resort repeatedly to borrowing from the non-concessionary (expensive) window of the IMF such as the Standby facility. These notwithstanding, its debt burden does not ease. Country X owes at least half of its debt to the IMF, the World Bank and a Regional Development bank (such as the African Development Bank) and the other half to bilaterals (individual creditor countries), usually government supported Export Credit Guarantee (ECG) agencies in these countries and a tiny bit to private banks. Country X is essentially insolvent or bankrupt.

Country X would have been a structural adjustment programme (SAP) candidate, the SAP itself necessitated by the need to resolve a sustained balance of payment deficit and its attendant debt problem. The SAP would have been designed to enable the country to grow out of its debt and BOP problem through expanding exports and attracting foreign direct investment (presumably a non-debt financing path). In spite of the adjustment, growth is either modest, stagnating or even regressive and the balance of payments position continues to worsen. Where Country X manages an impressive growth, this is likely to be aid-driven rather than FDI or domestic savings-driven, thereby fragile and superficial. The economic and social sectors of Country X now depend on foreign loans and grants to finance between 60-90% of development expenditure, meaning that without these resources, the government can only about pay misery wages and little else. Consequently, country X remains as poor as well as debt distressed as it started. Country X is caught up in a poverty-debt trap. In addition, Country X has also become extremely aid-dependent.

This aid-dependency propels the influence of the IMF in particular to new heights as it is the elected physician of economic health whose pronouncements signal whether or not creditors can feel safe in providing further loans and grants. The World Bank

is a crucial player especially on matters of sectoral reforms and the infusion of specific ideologies to industry-level restructuring (e.g. privatisation of industries). But it must be understood that the World Bank is politically and strategically a junior partner to the IMF as it must follow the macroeconomic directions defined by the IMF, of course with some space to air an opinion. Under this condition, Country X is not only caught up in a debt-poverty trap, it has also effectively lost sovereignty in policy management as IMF and World Bank programming instruments, targets and conditions take centre stage. The trap is now an extended one: debt-poverty-aid dependency-dependency on external ideas and management. If Country X is a favoured and stable one it receives generous loans and grants, much of it financing luxury imports, sustaining the corrupted taste of a small middle class, and perhaps fuelling corruption.

You are a government of Country X and you have just won a narrow electoral victory and desirous to stay in power after the next round of elections. You have pitched your camp safely with the dominant global view that development is dependent on FDI and rapid liberalisation (of goods, the capital account and trade) in spite of the evidence to the contrary. You have inherited the poverty-debt-aid-dependency trap outlined above in addition to a large and growing domestic debt. Servicing both the domestic and the foreign debt commands a very significant proportion of your internally generated revenues. Because of your dreams about FDI (never mind what history and the reality show) you believe that a bill of good health from the IMF is crucial to these dreams and to attracting further aid, therefore you are eager to reach accommodation with the IMF and actually see a programme with the IMF, no matter how unfavourable, as a triumph. Clearly non-repayment of debt (arrears or unilateral default), most of all to the IMF is ruled out as an option. Being a small poor country you see yourselves largely as policy-takers, too weak to embark on radical actions of the type pursued recently by Argentina and Brazil, although you are clear in your mind that only more radical solutions to the debt can bring sustained relief, and too aloof to promote radical solutions even in the clubs of the poor (e.g. NEPAD). Even that, you may be even too weak-kneed to say so loudly, especially in your own country, lest you bring displeasure from both the voting public and the creditor nations onto yourselves. Under these circumstances you see your options in stark terms: to apply for HIPC debt-relief with an IMF programme or no-HIPC debt relief but with an IMF programme. DO YOU RECOGNISE COUNTRY X?

Given these options it is not hard to understand the justification for going for the HIPC debt relief initiative. First, under conditions of extremely tight budget and foreign exchange constraints, even interim debt relief (in the form of traditional debt rescheduling and some unilateral debt cancellations) can provide a breather or at least prevent a default, the latter presumably associated with a bad image. It is a typical "half-a-loaf is better than none" situation. Secondly, once an IMF programme is considered inevitable, HIPC debt relief is a bonus. Thirdly, it could be argued that no matter how small, the debt relief improves the chances for improving the macroeconomic environment, domestic savings and investment – important pre-

requisites to grow out of debt and the IMF stranglehold. Therefore, the HIPC stigma and its additional encumbrances are short-term pains for long-term benefit. But will this be the case?

### **HIPC: Promise or Betrayal?**

If you read the websites of the IMF and the World Bank, you will be told that HIPC was their initiative designed to promote a comprehensive (as opposed to a piece by piece) and systematic treatment of the debt burden of low income countries. By comprehensive, they mean dealing with the different sources of external debt together - multilateral, bilateral and private - and ensuring that relief leads to overall debt sustainability. This way, also, the burden of debt relief will be equitably shared among all types of creditors proportionate to their shares of the debt burden. By implication, with HIPC debt relief, there will be no more debt distress and debtors will be given a fresh start to grow their economies and improve the living standards of their people.

What is the reality? First, HIPC was the outcome of intense global battles between the global anti-debt movement who believe that the purpose of financial capital is to serve human needs and those who see its principal function as generating a stream of profits for financial institutions and players. One of the key battle issues in the 1980s was whether or not debt owed to multilateral institutions could be reduced (written off) in principle. This was a crucial issue given the resistance over many decades by these institutions to countenance any form of debt reduction claiming that debt reduction will hurt their ability to provide further concessionary funds. Yet as a result of structural adjustment lending the IMF and the World Bank in particular had together become the single largest creditors to the poorest countries. Embarrassingly, the IMF was receiving in loan repayments (re-purchases) more money from Africa than they were putting into Africa in the late 80s and early 1990s. This outrage fuelled mass mobilisations against these institutions to a point where civil society organisations in the US in particular almost succeeded in blocking the replenishment of IDA 9, hitting where it hurt most - their pockets. This was when the institutions woke up to the realisation that anger against debt and adjustment could no more be taken lightly. This is what propelled the birth of HIPC 1 in 1996. The victory was one of principle, i.e. that multilateral debts can be reduced at no cost to the availability of concessionary finance or global finance in general. More importantly, HIPC was an acknowledgement that debt and its servicing were significant contributors to poverty and death in poor debt-ridden countries. HIPC 2, or the so-called enhanced HIPC came about as a result of the success of the Jubilee movement calling for debt cancellation. HIPC 2 merely made concessions in terms of lowering the eligibility criteria, coverage of more countries, promise of speedier relief and linkage between debt relief and poverty reduction.

Will HIPC 2 deliver sustainable debt or are we paying too high a price largely for a point of principle? We respond to this first in the general and then in specific reference to Ghana.

### **Winners and Losers**

Debt owed by the 42 HIPCs has spiralled to about \$2,000 billion. Because of the concessionary nature of most of this debt it requires much less to write it off. Under the best of circumstances, HIPC is expected to spread debt relief over 20 years such that its ratio of debt to exports does not exceed 150 percent or the ratio of debt to government revenue does not exceed 250 percent in net present value terms (NPV). This is what is referred to as debt sustainability. At the end of it they will remain indebted, still transferring large sums abroad at the expense of investing in human and economic development.

The IMF is the greatest winner of the HIPC initiative. The HIPC owe the IMF about \$7bn (NPV) of debt. However, the IMF has only promised to write off only \$2bn. This way it maintains its preferred creditor's status - i.e. the first to be paid no matter a country's situation. But the IMF can easily write this debt off from sales of its immense gold reserves. The IMF has the largest reserves of gold (about \$40bn dollars) second only to the US and Germany. This was the demand of civil society. The IMF staved off this demand by drumming support from gold producing countries like Ghana claiming it will hurt gold producers more through price declines. Ghana under the NDC was a vociferous proponent of this position. Even that, the IMF can generate all the money they need to cancel the debt through off-market transactions (e.g by revaluing the currently under-valued gold reserves) at little cost to gold producers.

The IMF's greatest triumph lies in using the HIPC debt relief to strengthen and entrench its control over economic policy management of HIPCs. The HIPC instrumentalities - pre-decision point document, Decision Point document, PRSPs and the floating Completion Point documents and processes now complement and reinforce its traditional lending instruments - the enhanced structural adjustment lending (ESAF) now renamed Poverty Reduction and Growth Facility, to make a point that more of the same will reduce poverty and grow the economy. By allowing the completion point to float, the IMF is able to hold debt ridden governments to ransom as it and it alone can pronounce whether governments have sufficiently complied with the conditions or not. The conditions relate to the macro-economy and fall squarely on the laps of the IMF. To this effect the IMF is the kingpin and the gatekeeper of HIPC. The World Bank is the minor partner. It is a pity, therefore, that the IMF was not officially on this panel as it is they, rather than the World Bank, who hold the cards.

That said, the World Bank is also a key winner in this arrangement. The HIPC owe the World Bank a total of about \$19.2 billion (NPV) of debt, of which the Bank has already cancelled or promised to cancel about \$6.4 billion (NPV). Most of this debt is owed to the IDA. The World Bank is using the HIPC trust fund operating under the trusteeship of the IDA as the vehicle for debt cancellation. The fund gets its resources through IBRD net income allocations and voluntary bilateral contributions. Neither the IBRD, nor the IDA has written off the HIPC loans from

their books. Instead, as and when a HIPC debt falls due, equivalent funds are transferred from the HIPC trust onto their respective balance sheets.

To date, donor countries have committed about \$2.5 billion and the IBRD about \$1.5 billion to the trust. However, this is less than half the amount even for the part of debt cancellation that the World Bank has already agreed to. In addition, about another \$13 billion (NPV) must be mobilized to cancel all the debt owed to the IBRD by HIPCs.

However, the World Bank is more than able to cancel its debt outright from its retained earnings. We believe that the IBRD could transfer up to \$10 billion from its retained earnings, which currently stand at \$27 billion (total equity \$37 billion). These include the past profits, which are yet unallocated or have already been allocated to the reserves. Like the IMF its pretext for not doing so is that committing more resources to debt cancellation will jeopardize its lending operations and unfairly privilege debtors at the expense of other developing countries. However we have shown that the IBRD has the financial resources to make this transfer without jeopardizing or seriously impacting its operations in any way.

The IMF and the World Bank hold a wealth of resources on their own balance sheets about \$500 billion in effective capital and \$40 billion in provisions for loan losses and reserves.

They can easily marshal internal resources for total debt cancellation as it represents just 5% of their effective capital and 65% of provisions for losses and reserves. These are accumulated for the day when borrowers cannot pay and they would not be disabled by such an insignificant drop in equity. Contrary to their claims, the viability of the IMF and the World Bank is not threatened. The real issue is NOT about ability. It is about POWER. Being preferred creditors confer upon the IMF and the World Bank immense power and justification for the strangulating control and the interference they exert on domestic policies and politics of poor countries.

Clearly, HIPC is an inadequate mechanism for a sustainable debt work out. It is one more ad hoc measure with very little logic. It is maintained not because it is effective - for Uganda and Mozambique are onto their 2<sup>nd</sup> and 3<sup>rd</sup> Completion point journeys - but power and politics. The IFIs and the key bilaterals who own them have succeeded in claming the nerves and protests of their people. With renewed agitation, they can act differently. That is why it is a shame that poor developing country governments are often so quick to jump to their defence or to assert ownership over arrangements they have little influence over.

For Ghana, the Honourable Minister is here to provide you with the figures and the list of HIPC Benefit structures, if you so desire. For now, let us only express our understanding over the perceived choices facing the government. Clearly the scale of the relief so far is not significant but better than nothing. There is hope for further debt relief if and when the completion point is reached. For a cash-strapped

government these are not menial gains. However, it is important also not to overstate the benefits accruing to the HIPC arrangement. Indeed we can calculate the costs more starkly than the benefits. These costs include: loss of sovereign control over policies, being locked in a regressive macroeconomic framework (we shall hopefully debate this some time soon) and being forced into rapid liberalization that is clearly hurting more than it is paying our people and our economy. Let us, at least, be bold Africans and collectively - government and citizens alike - declare a commitment to struggle for debt cancellation, at least in the interest of the Millennium Development Goals, which our government has committed us to attaining. The HIPC Initiative, enhanced or not, is not a panacea for all of Ghana or any other poor country's debt crises.

I Wish You Fruitful Deliberations.  
Thank you for your attention.