QUESTION 30

How did the debt relief initiative come about?

Creditors are not in the habit of canceling debts, much less giving something away for free. Yet in the press we regularly read about debt relief and debt cancellation. So what's the real situation?

The 1988 G7 Summit in Toronto marked a turning point: the debt was finally recognized as a structural rather than an economic problem. It was no longer a question of helping out a few countries that had managed their finances badly but of finding a solution to a problem that concerns the economic model as a whole. There was a real risk—which still exists—that the debt would cause the entire system to collapse. This was not in the creditors' interest because for them, debt equals power. They therefore agreed to waive a number of debts—the least possible—if by so doing they could maintain and even increase their domination.

Starting in 1988, therefore, the major moneylenders set themselves a dual objective: maintain stricter control of the behavior of indebted countries and allow those that accepted neoliberal measures to benefit from a systematic restructuring of their debt. But the conditions underlying this restructuring were so untimely and restrictive that the situation continued to deteriorate. Hence the present paradox: debt cancellation continues to make headlines while the debt problem remains unchanged.

Must we really let our children die of hunger to repay our debts?

—JULIUS NYERERE, president of Tanzania, 1964 to 1985

Up until 1996, the IMF and the World Bank, in their role as priority creditors, hid behind their statutes in order to refuse all debt relief: according to these two institutions, their statutes forbade them to envisage such an eventuality.

As for the Paris Club, it was given the job of orchestrating the different decisions of the G7 summits after 1988. At the Toronto summit, it was decided that 33 percent of non-ODA debt contracted before the cut-off date[131] would be canceled for the poorest countries. With the passing years, the percentage of debt to be canceled was revised upward, since the original figure did not allow countries to get out of the spiral of overindebtedness. It was therefore raised to 50 percent in London in 1991 and to 67 percent in Naples in 1994. But let's not be dazzled by these glittering percentages—they concern not the total debt but only the non-ODA debt contracted before the cut-off date. The reality is a world away from appearances, and the debt has reached new summits.

At the 1996 G7 summit in Lyon, in view of the scale of the debt crisis and under pressure from many organizations within the Jubilee movement (see Q59), the world's major moneylenders were forced to come up with another debt relief initiative, which received a lot of press and was not without its own hidden agenda: the HIPC (Heavily Indebted Poor Countries) initiative. As too few countries managed to fulfil the conditions imposed, the initial initiative was beefed up in 1999 at the G7 summit in Cologne.

Officially, this initiative was a revolution. It would allow the countries concerned to meet their "current and future external debt service obligations in full, without recourse to debt rescheduling or the accumulation of arrears, and without compromising growth." The big innovation was the involvement for the first time of the IMF and the World Bank: "The initiative marked a major departure from past practice, which had resisted any reduction of debt owed to multilateral financial institutions on the grounds that this would undermine their 'preferred creditor status.'"[132]

Far from providing a solution to the debt problem of developing countries, the initiative was essentially a restrictive one: it applied only to the poorest countries (annual per capita income less than $865), and these had to have access to the concessional financing of IDA (a branch of the World Bank) and to the IMF Poverty Reduction and Growth Facility (PRGF). Only eighty-one developing countries met these criteria.

But as if that wasn't enough, two other conditions were added: the country's debt burden had to be deemed intolerable, even after the traditional relief mechanisms, and the countries had to successfully apply, according to the World Bank, "strategies aimed at reducing poverty and laying the foundations for sustainable economic growth." This last criterion was debatable, since the policies imposed by the international institutions to promote growth went counter to the poverty reduction objective. As a result, only forty-two countries were selected to participate in the initiative: Angola, Benin, Bolivia, Burkina Faso, Burma, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Laos, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Yemen, and Zambia.[133]

The HIPC initiative did not relieve the debt burden, because behind the declared objective lurked another: the HIPC initiative simply made the external debt of these countries sustainable. In other words, the official creditors agreed to reduce the debt slightly to put an end to late payments and applications for debt restructuring. But above all they took advantage of this initiative to once again impose the logic of structural adjustment—a much discredited policy since the 1980s. With the HIPC initiative, the Bretton Woods institutions and the G7 sought to give new legitimacy to the neoliberal logic and their position of dominance by oiling the cogs of globalization.

QUESTION 31
What is the Heavily Indebted Poor Countries (HIPC) initiative?

To benefit from debt relief in the framework of the HIPC initiative, a country must go through a number of grueling and excessively time-consuming stages. It is a long, uphill battle driven by the neoliberal drill sergeants.

First of all, countries deemed to be eligible must, according to the IMF, "face an unsustainable debt burden" and "have established a track record of reform and sound policies through IMF- and World Bank-supported programs." A country concerned by this initiative must first sign an agreement with the IMF to pursue, over a period of three years, an economic policy approved by Washington. This policy is based on the terms of a Poverty Reduction Strategy Paper (PRSP). This document, which needs months at least to prepare, is a first, temporary step. It must present the economic situation of the country and list in detail all privatizations and economic deregulation measures that would enable the country to generate resources for debt repayment, and it must also describe how the funds derived from debt reduction will be used, in particular in the fight against poverty. Thus, in drawing up this paper, the country is forced to assume a contradiction, since the measures imposed are bound to ensure rampant poverty for the majority of the population.

Officially, the PRSP is to be drawn up "through a broad-based participatory process," in collaboration with local civil society. However, numerous cases show that collaboration with civil society has been very partial and selective, since many organizations do not have the technical or financial means to influence discussions, especially those located outside the capital, and others have been set up and lavishly financed by the establishment to convey the official discourse. There was often strong pressure to sign agreements quickly, without making waves, and in general the consultation process was cut short so that the international institutions and African leaders could have their way, as the UNDP confirms: "Take Burkina Faso, where participation in the HIPC/Poverty Reduction Strategy process took the form of a one-and-a-half-hour meeting of donors and civil society."[134]

In this way the structural adjustment process gets the apparent approval of civil society, thereby weakening any criticism of the economic measures implemented. This phony consultation process means that social movements are only invited to state their positions on how a few modest sums will be used while the HIPC initiative promoters make sure they get no say in the overall running of the economy. Decision making remains in the hands of the international institutions, which won't give an inch.

> A close examination of the macroeconomic and structural adjustment policy contents of PRSPs shows that there is no fundamental departure from the kind of policy advice espoused under what has come to be known as the Washington Consensus.
>
> —UNCTAD, "Adjustment to Poverty Reduction: What's New?" September 26, 2002

After these three years of structural-adjustment-inspired reforms comes the "decision point" to determine whether a country's debt is still unsustainable. How is this done? The international institutions have decided—arbitrarily—on a criterion of unsustainability. Arbitrarily, because the main criterion for progressing to the next stage is mathematically nonsensical! This criterion, that the ratio of net present value of debt[135] to annual exports must exceed 150 percent, is absurd because it means comparing a debt stock (accumulated over several years) with an annual flow of capital based on exports that do not all benefit the state in question.[136]

At the "decision point" stage, the IMF and the World Bank use this criterion to decide if the country's debt is sustainable or not. Four countries (Angola, Kenya, Vietnam, and Yemen) in this way learned that they did not come under the HIPC initiative: their debt was deemed sustainable, and they were therefore not eligible for HIPC debt relief. If one also removes from the list Laos and Burma, which refused to join the initiative, only thirty-six countries remain eligible.

These "survivors" must therefore continue to carry out the economic reforms required by the IMF and the World Bank for a period of one to three years. The PRSP must be finalized and meet the requirements of the international institutions. Naturally these same institutions announce when the "completion point" has been reached, by which time the debt relief assistance will actually be delivered. This assistance is calculated so that the debt will finally become sustainable again. In principle, the NPV of debt to exports ratio should fall below the 150 percent threshold.

> The debt was invented by the devil. Go for a walk in Africa and ask where the debt is! No one knows where the debt we are being made to pay comes from. The debt is worse than AIDS. At least with AIDS there is hope for the future, whereas with the debt . . . Future generations are condemned to pay for it, not just the debt stock, but interests, too. I don't talk about the debt because I know we can't get rid of it. They mess about, they reschedule, they throw a few crumbs—it's like giving aspirin to a cancer patient.
>
> —ABDOULAYE WADE, president of Senegal, in *Libération*, June 24, 2002

The portion of debt due to countries of the Paris Club is then reduced in the following manner:[137] ODA loans (contracted at lower than market rate) are rescheduled over 40 years including 16 grace years;[138] "commercial" or "non-ODA" debts are canceled up to 90 percent, the remainder being rescheduled at the market rate over twenty-three years, including a six-year grace period. The other bilateral creditors (countries outside the Paris Club such as Gulf States or emerging countries) and multilateral creditors (IMF, World Bank, and regional development banks) must complete this procedure in order to make the debt sustainable. Certain rich countries, including France, have granted additional relief, going as far as 100 percent cancellation in the case of commercial loans. Following this methodology, goes the official line, the debt problem has finally been settled.

Actually nothing could be further from the truth. The HIPC initiative has proved to be a fiasco. A full audit should be made, because a great many citizens, especially in the South, think that the HIPC initiative is more of a problem than a solution for the world's indebted countries.

QUESTION 32
Has the HIPC initiative achieved its goal?

If the goal was to provide a broad, fair, and lasting solution to the huge debt problem, then the HIPC has failed, and failed miserably.

A FAILURE IN TERMS OF TIME SCALE

In principle, the HIPC initiative should have been completed within six years: three years to reach decision point, three more years to reach completion point. According to this reasoning, in July 2008, twelve years after it was launched, everything should have been tied up long ago. This was far from being the case, since the initiative had accumulated a number of delays. Some countries had not yet reached the decision point, and others had reached it seven years before without being able to get to the completion point! The initiative is so far behind that its planned closing date (sunset clause) has had to be extended several times.

However, it sometimes happens that certain stages are completed very rapidly. For example, in April 2006, knowing that other countries "deserved" to be part of the HIPC initiative, the IMF and the World Bank proposed adding seven countries to the list, namely, Afghanistan, Bhutan, Eritrea, Haiti, Kyrgyzstan, Nepal, and Sri Lanka. Haiti reached decision point as early as the end of 2006, followed by Afghanistan in July 2007. These happen to be two countries in which the United States has a vested interest: it had troops in Haiti in February 2004 to hasten the departure of President Jean-Bertrand Aristide; it has a military presence in Afghanistan, a country it invaded on the pretext of the 9/11 attacks and in which it has set up a puppet government. Where there is a will, there is a way.

Bhutan and Sri Lanka quickly conveyed their refusal to join the HIPC initiative. After Laos and Burma, that makes four out of forty-nine that have turned down the invitation—a remarkable proportion for an initiative presented as a generous one. If one also takes into account the four countries removed from the group, that leaves only forty-one eligible for inclusion out of a total of 145 developing countries. This can hardly be called making headway.

At the end of July 2008, thirty-three countries had reached decision point, of which only twenty-three had gone on to reach completion point:

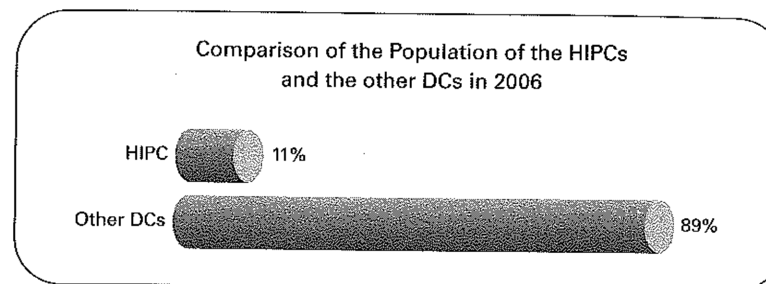
Status of Implementation for the HIPC Initiative in July 2008

COMPLETION POINT REACHED		DECISION POINT REACHED		PENDING
Uganda	May 2000	Guinea-Bissau	Dec 2000	Côte d'Ivoire
Bolivia	June 2001	Guinea	Dec 2000	Comores
Mozambique	Sept 2001	Chad	May 2001	*Eritrea*
Tanzania	Nov 2001	D.R. Congo	July 2003	*Kyrgyzstan*
Burkina Faso	Apr 2002	Burundi	Aug 2005	*Nepal*
Mauritania	June 2002	Congo	Mar 2006	Somalia
Mali	Mar 2003	*Haiti*	Nov 2006	Sudan
Benin	Mar 2003	*Afghanistan*	July 2007	Togo
Guyana	Dec 2003	C. African Rep.	Jan 2008	
Nicaragua	Jan 2004	Liberia	Mar 2008	COUNTRIES THAT REFUSED
Niger	Apr 2004			Laos
Senegal	Apr 2004			Myanmar
Ethiopia	Apr 2004			*Sri Lanka*
Ghana	July 2004			*Bhutan*
Madagascar	Oct 2004			
Honduras	Apr 2005			COUNTRIES REMOVED
Zambia	Apr 2005			Angola
Rwanda	Apr 2005			Kenya
Cameroon	Apr 2006			Vietnam
Malawi	Sept 2006			Yemen
Sierra Leone	Dec 2006			
Sao Tomé/Principe	Mar 2007			
Gambia	Dec 2007			

Note: Names in italics are countries added to the list in 2006

A FAILURE IN TERMS OF SCOPE

The criteria used for country selection excluded the most highly populated developing countries (for example, Nigeria—120 million inhabitants—which was on the very first list in 1996) and kept only small countries that are both very poor and heavily indebted. Even after the addition



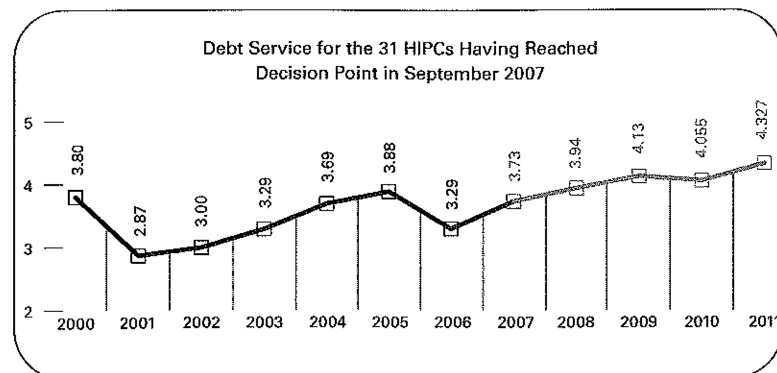
Source: World Bank, *World Development Indicators 2007*

of certain states to the HIPC list in April 2006, the countries where the majority of the world's poor people live are not included: China, India, Indonesia, Brazil, Argentina, Mexico, the Philippines, Pakistan, Nigeria, and the like. In fact, the initiative concerns only about 11 percent of the total population of developing countries. What chance do all the developing countries have of getting out of the present financial impasse with such an initiative?

A FAILURE IN TERMS OF RELIEF

The IMF and the World Bank regularly publish status reports on the HIPC initiative. According to the September 2007 report, only thirty-one countries had reached decision point. Statistics on the debt servicing of these countries show a slight decline in the first years, but since 2002 it has risen again (the year 2006 will be discussed below).

For the analysis to be complete, it must be noted that to benefit from the HIPC initiative, the countries concerned had to be free of arrears to the IMF and the World Bank. To qualify, therefore, they had to pay any arrears at the start of the initiative, which caused the amount of debt service to rise. This was the case for the DRC after Joseph Kabila was elected president in 2001. The country suddenly had to borrow to pay back its arrears to the two Bretton Woods institutions before reaching decision point. The drop associated with the HIPC initiative had nothing to do with the extravagant percentages announced in the media.



Source: IMF and IDA, HIPC Initiative and MDRI—Status of Implementation, September 27, 2007. In $ millions; in gray, estimates that reflect only the HIPC initiative

Is the initiative enough to make the debt sustainable for the countries concerned? By 2004, UNCTAD was convinced of the contrary:

> There now seems to be an emerging consensus, however, that many African countries continue to suffer from a debt overhang despite the HIPC Initiative and various actions in the context of the Paris Club. The fact that even those countries that have reached (or are about to reach) the so-called completion point will soon find themselves in an unsustainable debt situation gives credence to the arguments advanced by critics with respect to the inappropriateness of the criteria applied in the debt sustainability analysis. And the fact that several more debt-distressed African countries are not eligible for HIPC debt relief reflects the lack of objectivity in the eligibility criteria. . . . According to the IMF and the World Bank's own analysis, some completion point countries (notably Uganda) currently have debt ratios exceeding sustainable levels as defined by the Initiative. There are various reasons for this, including the drastic fall in commodity prices from the late 1990s to the end of 2002, overoptimistic assumptions for economic and export growth, and in some cases new borrowings.
>
> —UNCTAD, *Economic Development in Africa. Debt Sustainability: Oasis or Mirage?* September 2004

Debt–Exports Ratio for Countries at Decision Point versus Completion Point

COUNTRY	COMPLETION POINT YEAR	TARGET RATIO AT DECISION POINT	RATIO OBSERVED AT COMPLETION POINT
Burkina Faso	2002	185.5%	207.5%
Ethiopia	2004	173.5%	218.4%
Niger	2004	184.8%	208.7%
Rwanda	2005	193.2%	326.5%
Malawi	2006	169.0%	229.1%
Sao Tomé / Principe	2007	139.7%	298.7%

Source: IMF, HIPC Initiative and MDRI—Status of Implementation, 27 September 2007

For example, according to figures published in 2007, six countries that had reached completion point still had a largely unsustainable debt, to such a degree that additional relief had to be provided. Let us look at the NPV of debt/exports ratio of these countries, bearing in mind that the objective of the initiative was to bring it below the threshold of 150 percent.

Why this huge discrepancy? As stated below by UNCTAD, the IMF used growth and exports statistics that were far too optimistic. Willfully ignoring the disastrous consequences of Structural Adjustment Programs since 1980, the IMF persists in thinking that by applying the measures it imposes, growth can be generated at the touch of a wand. Experience once again proves it wrong.

> It is now widely recognized that, in a certain number of cases, the initial analyses of intolerable indebtedness greatly overestimated the potential of the HIPC in terms of export revenues and economic growth.
>
> —KOFI ANNAN, *UN Secretary General's Report on the External Debt Crisis*, August 2, 2001

This means that even countries that conscientiously fulfill IMF and World Bank requirements still fail to have a sustainable debt at the end of

the process. The HIPC initiative has not been able to make an unsustainable debt sustainable, though this was its declared goal.

A FAILURE IN TERMS OF OBJECTIVE

The sustainability objective is in itself highly questionable. The HIPC initiative's goal was not to guarantee fundamental human rights, eradicate poverty, or enable the people in the South to affirm their full sovereignty. Its purpose was simply to enable developing countries to repay their debt regularly, without default, but to the maximum of their financial capacity. The creditors wanted to be sure of receiving repayments without the risk of a sudden stoppage on the part of one country or another.

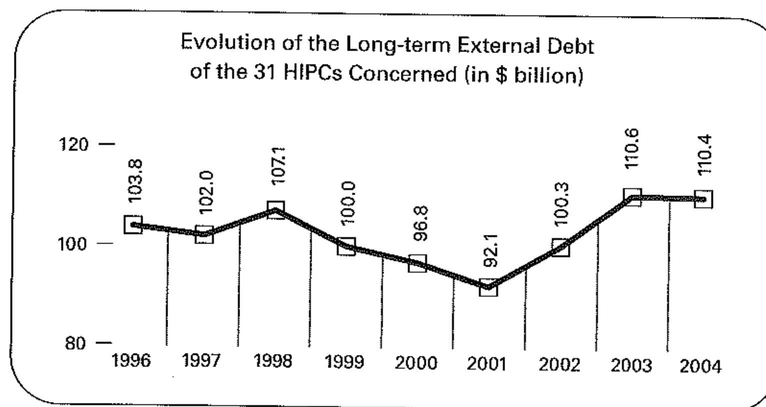
> For a creditors' club, debt sustainability is an essential goal, because it maximizes the long-term probability that the debt will be fully repaid and that normal and mutually profitable relations can be established and developed on a lasting basis. It is therefore a matter not of generosity, but of common interests supported by solidarity.
>
> —MICHEL CAMDESSUS, declaration on the occasion of the 50th anniversary of the Paris Club, June 14, 2006

The threshold determined by the HIPC initiative corresponds to an estimated threshold below which a HIPC would not be able to make regular repayments. Thus it corresponds to the maximum debt a country can bear without requiring a restructuring process. The HIPC initiative merely brings the debt below this maximum amount—and as we have seen, it usually fails to do even that! The HIPC initiative therefore aims to cancel debts that cannot be repaid and thus to avoid having these countries suspend their repayments.

> The majority of countries concerned were not paying more than 50 percent of debt service before the initiative was implemented. A proportion of the debts contracted by the HIPCs were not actually repaid. Therefore the debt relief only regularizes—on an average basis—a situation that already exists. In this context, the reductions in debt service that have been presented . . . appear to overestimate the impact of the initiative. In fact, the agreed relief measures concern in part these non-recoverable debts. That is why the reduction in the levels of effective repayments by HIPCs is slight in relation to the announced reduction in debt stock. . . . Moreover, the reduction of debt service over exports remains closely linked to the IMF's hypotheses concerning export gowth, that is, an average annual growth of 10 percent between 2005 and 2007.
>
> —STÉPHANE ALBY and GAËLLE LETILLY, BNP Paribas, "Les annulations de dette des pays pauvres: pour quels résultats?" in *Conjuncture*, March 2006

A FAILURE IN TERMS OF TRANSPARENCY AND HONESTY

In this context, it is reasonable to ask how the debt of the HIPCs has evolved. We have just observed some alarming facts: for many countries, the debt remains unsustainable; this initiative simply confirms that the HIPCs were not repaying all they owed, which no doubt obliged them to borrow again in order to honor the debt. Strangely, the report published by the IMF and IDA presents the evolution of debt service, but it is not at all forthcoming on the evolution of the debt stock. It simply states that the



Source: Authors' calculations based on the World Bank's *Global Development Finance 2008*

HIPC initiative should lead to a reduction in debt of $63 billion for the thirty-one countries that had reached decision point in September 2007. We thought this required further examination, and thanks to the country by country figures published by the World Bank, we have been able to reconstitute the long-term external public debt stock of this group of thirty-one countries.

Clearly, it cannot be said that the reduction was significant and lasting.

A NEOLIBERAL SUCCESS

For the experts who devised the HIPC initiative, relieving the burden of a heavily indebted country is not an end, but simply a means. The real goal is to guarantee continuity in the matter of repayments and cast a veil of generosity over the heightened structural adjustment measures.

> Countries applying for the HIPC initiative must adopt a Poverty Reduction Strategy Paper (PRSP), under the auspices of the IMF and the World Bank. This document must indicate the use that will be made of the resources made available by this initiative, and contain a certain number of commitments relating to the implementation of classic structural adjustment measures: privatization of public companies, reduction of the salaried workforce, reduction of grants, elimination of government subsidies, deregulation of the labor market. In other words, the whole arsenal of ultra-liberal measures which have contributed to the impoverishment of African populations, to the degradation of social services, to a fall in life expectancy of over seven years, to the return of diseases we had thought eradicated, to increased unemployment for young graduates, to setting back industrialization, and to the creation of chronic food shortages.
>
> —MOUSSA TCHANGARI, "Un projet néo-libéral pour l'Afrique" (A Neoliberal Project for Africa), in *Alternative* (Niger), July 24, 2002

The message is, more or less, "If you adopt the policies we tell you to, you will no longer have an unsustainable debt burden. Better still, we will

lend you money so that you can carry out the policies we recommend. This will also allow you to buy consumer and capital goods as well as the services you need from the creditor countries." The HIPC initiative is thus part of the whole arsenal of debt used by the creditors, with the complicity of the leaders of the countries concerned, with the agenda of maintaining and increasing domination. In addition, it places all the responsibility for overindebtedness on the countries of the South: the moneylenders take not the slightest responsibility, since in the framework of the HIPC initiative it is up to the country—advised, one might add, by two of its main creditors (the IMF and the World Bank)—to reform its economy in order to be allowed to reach completion point. This implies that the only solutions envisaged must come from within the countries, together with all the obligations. Yet it is the logic of structural adjustment, deriving from the logic of plunder, slavery and colonialism, that keeps these countries under the yoke.

> After almost two decades of applying Structural Adjustment Programs, poverty levels in Africa have risen, slow and erratic growth are the norm, rural crises have intensified and deindustrialization has damaged future growth prospects. [For the last two years poverty reduction has become the fundamental aim of the programs and activities of the international financial institutions in Africa and other countries with low revenue].
>
> —UNCTAD, Press release, September 26, 2002

> The IMF and the World Bank have changed the words, changed the acronyms, changed their methods of consultation, but they have not changed an iota of their creed.
>
> —DETLEF KOTTE, UNCTAD, in *Libération*, "FMI et Banque mondiale: le fiasco africain," September 27, 2002

To get these countries to accept their dubious remedies, the IMF and the World Bank have made a show of prescribing poverty reduction strategies. They have given themselves an alibi (paltry sums sprinkled over a very few social projects) while taking care to hide the serious secondary effects involved: for example, in countries where more than 40

percent of the budget goes to repaying the debt, governments are not allowed to recruit and train a sufficient number of teachers, nursing aids, doctors, and other essential workers in the name of the sacrosanct principles of a leaner civil service and a balanced budget. The various small amounts freed up by the HIPC initiative are no more than window dressing: a few schools or dispensaries are built, but as the state is not allowed to recruit the necessary staff, apart from underqualified and underpaid substitutes, it is obliged to apply a cost recovery policy: each family must pay a contribution for the schoolmaster's wages, for medication, compresses, food for sick people in hospital, and such. The right to an education and health care is always the first to be forgotten.

The HIPC initiative has achieved its hidden goal: countries have continued to open up their economies, privatize their public companies, reduce their social spending, repay their debt, and show an appropriate docility. Their leaders have been able to boast the support of the international financial institutions and declare in the press that debt cancellation will reduce poverty. They can also take cold comfort from the fact that their countries were poor enough and indebted enough to be eligible for this initiative.

Certainly, seen from this viewpoint, the HIPC initiative has fulfilled its mission.

QUESTION 33
What was contained in the latest debt relief announced by the G8 in 2005?

In 2005 only eighteen countries concerned by the HIPC initiative had completed the course (in other words, less than half the countries eligible), and many of these still had an unsustainable debt. More than twenty others were still bogged down in the complicated process. However, as long as repayments by the HIPCs continued, the creditors were reluctant to go further.

> A flagship international debt relief scheme for the world's poorest countries is failing to free many countries from debt as it becomes clear that its forecasts were too optimistic, the IMF and World Bank have admitted. . . . The bank's governing board, which met earlier this week, showed no enthusiasm for making the scheme more generous despite pressure from non-governmental organizations, bank officials said.
>
> —*FINANCIAL TIMES*, "Debt Relief Scheme Missing Targets, says IMF," September 5, 2002

But in 2005 changes in the international situation altered the picture: oil prices started to surge, due to the boom in Chinese demand, to the difficulties experienced by Mikhaïl Khodorkovski's oil company, Yukos, under pressure from Vladimir Putin, and to high tension in oil-producing countries such as Iraq and Nigeria. The barrel of Brent crude oil rose from an average $29.40 in August 2003 to $49.80 in October 2004 and topped the $55 mark in March 2005.[139]

The majority of countries eligible for the HIPC initiative are poor, non-oil-producing countries, so this vast increase in oil prices hit them hard. The slight relief afforded them by the HIPC initiative often turned out to be lower than the extra costs incurred by higher import prices.

The major powers were then forced to make an additional effort. In 2005, the G8 was hosted by Great Britain where prime minister Tony Blair was facing difficulties on the domestic front due to several embarrassing affairs involving some close colleagues and Labor executives. The international situation would be an opportunity for him to regain some prestige, and his close relationship with U.S. President George W. Bush would help him in this regard.

On June 7, 2005, following a meeting with Blair, Bush declared: "Our countries are working on a proposal that will eliminate 100 percent of the debt of the poorest countries." A deceptive declaration—since only four days later, the finance ministers of the G8 announced in London the "historic" cancellation of the debt of eighteen poor countries owed to three creditors: the IMF, the World Bank, and the African Development Bank (ADB), for an amount estimated at $40 billion. Eventually, twenty other countries could benefit from the measure, bringing the total to $55 billion. The G8 summit, held in Gleneagles, Scotland, the following month, ratified this decision which was to be known as the Multinational Debt Relief Initiative (MDRI).

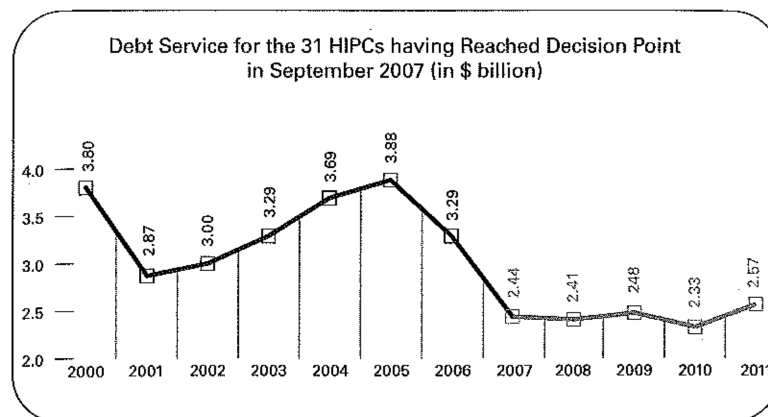
So which were these eighteen countries? No prize for the right answer: of course it was precisely those eighteen HIPCs that had reached completion point at that time. The next twenty countries were the HIPCs that were still working toward completion point. From the very outset, the MDRI slipped neatly into the wake of the HIPC initiative: the countries concerned had to bow to all the conditionalities—criticized and questioned as they were—of the HIPC initiative.

It is interesting that this caused some ruffled feathers in the plush ambience of official meeting rooms. The leaders of "small" rich countries did not appreciate being presented with a fait accompli by the G8. The announcement made on June 11, 2005, was indeed a presumptuous one: eight countries had decided put the debts held by the IMF and the World Bank behind them and move on without consulting these small countries, whereas, officially at least, decisions have to be taken by all member states.

On June 22, 2005, Willy Kiekens, IMF executive director, Belgium, floated the idea of an instrument by which the full, irrevocable and unconditional debt relief decided by the G8 could be bypassed. Kiekens would continue to demand repayments: the IMF would only refund these amounts to the indebted country if that country applied "adequate" economic policies. A week later, the IMF representatives of Belgium, Switzerland, Norway, and the Netherlands delivered a memorandum demanding the continuation of strict conditionalities in exchange for debt cancellation, since, in their words "conditionality is a key feature for effective use of resources that are freed up by debt relief." Such a proposal was in stark opposition to the announcements of the G8 and would have caused it to lose face.

The contest movement led by Belgium, Switzerland, Norway, and the Netherlands was far from being a lost cause, since the four of them, each at the head of some ten countries, held 16.32 percent of voting rights, which is enough to block the IMF where major decisions require 85 percent. Normally, this allows the United States to block any development it does not approve. In September 2005, during the IMF and World Bank Assembly, the G8 countries had to agree to pay the cost of the MDRI to quell the uprising. Note that the IMF included in the list two non-HIPC countries, Cambodia and Tajikistan—countries that, of course, had already accepted the IMF's conditionalities.

It is important at this point to examine the concrete results of the MDRI for the countries concerned. The figures published by the IMF and the World Bank are as follows:



Source: IMF and IDA, HIPC Initiative and MDRI—Status of Implementation, September 27, 2007. In gray, estimates taking into account the HIPC initiative and the MDRI.

Assuming that these forecasts are confirmed in the coming years (we have seen with the HIPC initiative that IMF estimates are often unreliable and are mainly designed to serve the ideology upheld by its experts), this chart calls for two comments. First, one observes a variation comparable to that seen at the start of the HIPC initiative: a drop when the initiative was launched, and then a return to an upward trend. It would thus be tempting to expect a similar "success." Second, the economy linked to the MDRI for the 31 HIPCs appears to be between $1.2 billion and $1.8 billion per year, that is, less than $60 million per country. Such amounts are derisory, especially as these sums can be deducted from the aid they will receive if they do not fulfill the criteria imposed by the rich countries that will pay in their place. In comparison, in 2007 the G7 countries devoted $790 billion to military spending (including $550 billion by the United States alone) and $350 billion to agricultural subsidies that seriously penalize small Third World producers.[140] The war waged in Iraq by the United States and its allies since 2003 cost them some $20 billion per month in 2008.[141] The annual cost of the MDRI for the rich countries is therefore less than U.S. spending in three days on the Iraq conflict.

For the countries concerned, the MDRI is no gift from heaven. It was introduced after long years of neoliberal reforms imposed by the IMF and the World Bank. These countries have therefore paid dearly, and in advance, for eligibility. The HIPC initiative's logic has been extended to the MDRI: because of the former's shortcomings, the creditors have simply stepped up the process to close the most serious gaps.

The straitjacket of structural adjustment is as present and non-negotiable as ever for those who bear the debt burden. The failure of its logic is clear: since 1988 each debt relief scheme for the poorest countries results in another, always too late and always ill-adapted. It must not be forgotten that debt is much more than a financial mechanism: it is a powerful instrument of domination that for decades has allowed the leaders and big businesses of rich countries, with the complicity of the South's ruling class, to impose an economic model that serves their interests.

By sending their deliberately confusing messages, the world's big moneylenders tried to quell protest concerning the debt and give the impression that the debt of developing countries was a thing of the past. The Gleneagles decision is above all proof of the failure of the HIPC initiative: if it were not so, the debt of these eighteen countries would not have needed further relief.

However, a new element has emerged to upset the debt machine. Until recently, it was mainly the G7 countries and the multilateral institutions that supported the HIPC initiative and the MDRI. But now China has stepped in. According to the interpretation given to the situation by the Bretton Woods institutions and the G7, China has taken advantage of the improved solvency of the HIPCs to lend them money that they use to buy cheap Chinese goods and services (rather than buy them from the companies of the G7 countries). At the same time, China is thus assured of acquiring supplies of the raw materials vital to its economic growth. Since China is not a member of the Paris Club, it is not bound by the debt relief promises that are negotiated there. China grants new loans to developing countries without any political conditionalities whatsoever, as opposed to the Bretton Woods institutions and the members of the Paris Club. Given all these reasons, the countries of the South that thus benefit from a new source of financing are less and less willing to do the bidding of the IMF and the World Bank. The grace period granted for rescheduled repayments in the context of the HIPC initiative (see Q31) allows HIPCs to enter into trade agreements with China as soon as they reach completion point and their debt starts to increase. When the period of grace comes to an end and the loans contracted with China begin to be repaid, it is likely that the HIPCs will again be unable to sustain repayments and that a new debt relief phase will be necessary. Worried at being deprived of the benefits of an initiative they paid for, the G7 countries have attempted to involve China in the process but China has firmly declined thus far. The rich countries have little influence over China—a fact they find irksome to say the least.

QUESTION 34
Does Official Development Assistance (ODA) help to mitigate the effects of the debt?

Since 1970, most governments of rich countries have never honored their commitment to allocate 0.7 percent of their Gross National Income (GNI) to Official Development Assistance (ODA) for countries of the South. This does not stop them bringing this empty promise to the fore at every occasion, such as during the G8 summit of 2005, where it was renewed through to 2015. But the very notion of ODA is highly questionable. Isn't it more an alibi used by supposedly generous states whose political and economic agenda in the Third World, in fact, blocks any attempt at independent development?

It would actually seem that the steep downward trend of ODA during the 1990s is back again. The figures published by the Development Assistance Committee (DAC), which centralizes ODA information for the OECD, show that after decreasing by a third relative to the GNI of DAC member countries (from 0.33 percent in 1990 to 0.22 percent in 2001), the ODA did increase to 0.33 percent in 2005 but then fell again to 0.28 percent in 2007, when it stood at $103.7 billion. The 0.7 percent objective has been reached only by a few countries of Northern Europe: Norway, Sweden, Luxembourg, Denmark, and the Netherlands. On the other hand, five countries commit less than 0.2 percent of their GNI to ODA: Italy, Portugal, Japan, Greece and the United States. All this shows what a fiasco such international commit-

ments are. Will the 0.7 percent promise have a better chance of being upheld in 2015 than in 1970?

The commitments taken during the G8 summit in 2005 were clear: a significant increase in ODA, and specifically a doubling of ODA to Africa by 2010. According to the OECD, this "implied lifting aid from US$80 billion in 2004 to $130 billion in 2010 (at constant 2004 prices)." The verdict is bleak: "Overall, most donors are not on track to meet their stated commitments to scale up aid; they will need to make unprecedented increases to meet their 2010 targets."[142] In other words, the targets will not be met and this has been the case for nearly forty years. It would seem that you cannot take a G8 leader at their word.

However, the very nature of ODA is questionable. The definition provided by the DAC clearly illustrates the limits of ODA, and the roots of future transgressions are already contained in this definition. ODA consists of "grants or loans to countries and territories on Part 1 of the DAC list . . . undertaken by the official sector, with promotion of economic development and welfare as the main objective." The DAC thus holds an updated list, called "Part 1," composed of 150 countries and territories of low or medium revenues, which are beneficiaries of ODA. The other countries are the "in transition" countries that make up "Part 2," including the ex-Soviet bloc and other more advanced countries: the grants and loans to these countries do not count as ODA, but as Official Aid (OA).

Loans are included as ODA, as long as they are given to eligible countries at a "preferential" rate, namely at less than 25 percent the market rate. The size of loans in ODA is far from negligible: at the end of 2007, countries of the South had contracted debts at preferential rates to other states, to the tune of $230 billion.[143] That is to say that ODA, by its own definition, creates debt.

Consequently, the subsequent repayments cause a hemorrhage of capital from countries of the South. In terms of bilateral debts at preferential rates, between the end of 1994 and the end of 2007, the governments of developing countries had paid back $82.4 billion more than they had received in new loans.[144] This net negative transfer reveals the hidden aspects of aid: in the final analysis, ODA also helps donor countries to enrich themselves at the expense of countries that they claim they help.

Furthermore, the definition of the purpose of these grants and loans is sufficiently vague to leave it open to various statistical manipulations. With the result that the main projects financed are far removed from the top-priority requirements of the populations.

An assessment of the figures published by the OECD in 2008 shows that in 2007, ODA fell by 8.4 percent in real terms. Out of the $103.7 billion ODA in 2007, $8.7 billion went toward debt remission, which does not create any positive financial flux for the indebted countries. The increase in ODA between 2001 and 2005 owed much to remission of bilateral debt that was subsequently reduced. For Iraq and Nigeria, debt remission has diminished, and the HIPC initiative is running out of steam. To count debt remission in ODA is scandalous. Often, the canceled debts are old, costly, and dubious debts that were cluttering up the accounts of the creditors. Their cancellation is merely a cleaning up of the accounts, and the creditor countries actually create a double PR bonus from it, since they can loudly announce a reduction of the debt one year, before proclaiming a rise in their ODA the following year, even though it concerns one and the same financial operation. ODA figures are thus easily manipulated. In this way, the fact that over 40 percent of France's ODA in 2003 was taken up by debt remission meant that the government could announce a rise in ODA, whereas outside debt remission, their ODA, had actually decreased.[145] Similarly, the remission of a Democratic Republic of the Congo debt enabled Belgium to announce a net increase in ODA in 2003, when it claimed to have reached 0.6 percent of GNI, compared with 0.43 percent in 2002, but then in 2004 the figure immediately fell back to 0.41 percent, revealing the masquerade. The record for 2004 is held by Portugal, whose ODA jumped by 187.5 percent due to an exceptional debt remission to Angola.[146]

Moreover, the accounting on these remissions is questionable. According to the OECD, in the case of a cancellation, only the interests of ODA creditors should be included in ODA (since the principal had already been counted as ODA during the loan's year), contrary to the non-ODA debts for which the total (principal and interest) are included as ODA at the time of their cancellation. Basically, this means that a commercial loan contracted in 1990 and canceled in 2006 can be given as an increase in ODA to the tune of the principal and the potential interest on

this remaining principal. On paper, it looks as if these funds were distributed again, whereas in reality nothing takes place.

Moreover, it is the nominal value of the canceled debts that is factored in. Yet in view of difficulties faced by these countries, the real value of these debts is much lower because if a creditor tried to sell such a debt today, it would have to reduce the price to find a willing buyer. In fact, "the United States Government—which is congressionally mandated to estimate the present value of its loan portfolio—applies a 92 percent discount to the debt of HIPCs."[147] Since this is clear, actually including the nominal value of canceled debts in ODA, as the governments of industrialized countries (including the United States) do, is deliberate embezzlement. The *Financial Times* is spot on: "The aid that isn't. Writing off official commercial debt should not count as aid."[148] ODA is a game of creative accounting.

Furthermore, technical cooperation, which constitutes over a quarter of ODA, includes "grants to nationals from aid-receiving countries who benefit from an education in their country or elsewhere" and "payments toward fees for consultants, advisors and analogous personalities, as well as teachers and administrators on special assignment in the aid-receiving countries." Yet, it is well known that expatriate teachers from countries of the North work in schools that are mostly attended by the children of other expats.

Moreover, some countries include tuition fees in their ODA accounts, that is, the cost of financing the secondary and tertiary education of students from ODA-receiving countries. Initially, the DAC tolerated the inclusion of tuition fees as long as the studies were oriented toward issues of development and the students returned to their countries to work. However, in reality this does not happen, since on the one hand, the costs are integrated before they can verify if an effective return took place, and, on the other, it also concerns foreign students born in countries of the North who mostly stay put. The costs are significant: around 900 million euros for France in 2006, twice that of 2001.[149]

"Aid to refugees" costs are also included in ODA. Yet, according to the French parliamentarian Henri Emmanuelli, "France declares virtually all costs incurred in hosting foreigners. Considering which organizations receive financing, especially l'Office français de protection des réfugiés et

apatrides (OFPRA) [Office for the protection of refugees and stateless], these expenses are primarily used for regulating migration and dealing with asylum seekers on French soil, rather than for aiding refugees. The argument that hosting refugees provides relief to countries to which victims of neighboring crisis or conflict zones does not convince your Special Rapporteur that the costs involved can be considered development aid."[150] This is how people seeking asylum in countries of the North, to escape repression or to ensure the survival of their families who remain in their countries of origin, enable French ODA to announce an increase of 450 million euros in 2006.

According to the OECD, nearly three-quarters of bilateral ODA is made of "special-purpose grants," such as technical cooperation, debt remission, emergency aid and administrative costs. The World Bank adds: "Although special-purpose grants are an essential element of the development process and have budgetary consequences for donor countries, they do not provide additional financial resources to recipient countries to support programs that are needed to achieve the Millennium Development Goals (MDGs)."[151] Indeed, a significant part of the official sums are fictive or move back to "donor" countries (purchase of food, medicine, equipment, expert missions), as Robert McNamara, World Bank president from 1968 to 1981, recognized: "The portion of aid (ODA) that remains in developing countries is very small. Practically, all the money donated returns rapidly to the rich countries in the form of imported products."[152] According to James Wolfensohn, World Bank president from 1995 to 2005, there were more than 63,000 projects in progress in all developing countries, but the costs of feasibility studies, travel and lodgings of experts from industrialized countries alone absorbed between 20 and 25 percent of the total aid.[153]

It is to be said, too, that France includes in its ODA some of the costs incurred in Mayotte and Wallis-et-Futuna, two overseas territories under French control, for a total of €200 million in 2006. Once debt remissions (€2.5 billion in 2006), schooling, hosting of refugees and costs toward overseas territories are removed, the French ODA is reduced by half to €4.2 billion (0.24 percent of GNI) instead of the €8.3 billion (0.47 percent of GNI) announced in 2006.

> The amount announced has once again been inflated by including debt cancellations which are not even sure to become effective in the near future, as well as including costs that do not contribute to development, such as tuition fees for foreign students, grants to research institutes or the costs of hosting refugees. Moreover the part allocated to such costs is even greater this year than last year.
>
> —HENRI EMMANUELLI, French Member of Parliament[154]

Therefore, the portion of aid that actually reaches the populations of developing countries is very small. Even in the case of emergency humanitarian aid, where the need is blatant, ODA still inflates the aid received. When a country of the North decides to send a planeload of food and medicines to a country in distress, the cost of chartering the plane, of buying the food and drugs, the salaries of those who prepare or go with the cargo, are all included in the amount of aid that has been given, but the corresponding sums stay in the North. The only thing that may, with hope, get to the destination, is the product itself, but the ODA is calculated on all the costs incurred in sending it, which is far more than what is received at the other end. On the contrary, when a debt is serviced, the entire amount does leave the economy.

Hence, a series of statistical manipulations is deployed to mask the weakness of the aid given by rich countries. Moreover, this aid does not necessarily prioritize the countries that are most in need of it, but it is mainly directed toward those that serve the geostrategic interests of the donors, independent of the real needs of the countries of the South. As such, apart from Iraq and Afghanistan, the main recipients of aid from the United States are Sudan, Colombia, and Israel. In 2002–3, only 41 percent of global ODA went to the fifty Least Developed Countries (LDCs),[155] meaning that "*strategic interests continue to play a major role in the allocation of ODA to receiving countries*."[156] The main objective of the donors is to strengthen their zones of influence by giving political support to allied governments in the South, so that they can impose economic decisions on them and control their political positions at international summit meetings.[157]

[SIDEBAR]

Severe Criticisms of ODA by the UNDP

The 1994 report of the UNDP is particularly severe in its criticisms of ODA and its content should be more widely available. Not only is aid granted without any conditions concerning the respect of human rights, but according to the UNDP (1994), it seems to be systematically directed toward countries with unsatisfactory records in this area. "Indeed, for the United States in the 1980s, the relationship between aid and human rights violations has been perverse. Multilateral donors also seem not to have been bothered by such considerations. They seem to prefer martial law regimes, quietly assuming that such regimes will promote political stability and improve economic management. After Bangladesh and the Philippines lifted martial law, their shares in the total loans given by the World Bank declined."

The same applies to military spending. "Until 1986, bilateral donors on average gave five times as much assistance per capita to high military spenders as they gave to low military spenders. And even in 1992, the high military spenders were still getting two and a half times as much per capita as the low military spenders."

Thus these geopolitical criteria play a decisive role and can even distort the very notion of aid. "If aid were directly linked to achieving certain human development priority objectives and emerging global human security threats, this would have a profound impact on its distribution. ODA allocations would be determined by how much each country could contribute toward meeting these objectives. Rather than being doled out to favorite clients, ODA would go where the need was greatest." In fact, writes the UNDP, "on average, [the donor countries] allocate only 7 percent of their aid to human priority concerns."

As far as technical aid, supposed to strengthen the self-sufficiency of developing countries, is concerned, the situation is no more encouraging. "Perhaps most disturbing is that, after 40 years, 90 percent of the $12 billion a year in technical assistance is still spent on foreign expertise—despite the fact that national experts are now

available in many fields." The UNDP deplores that "unless attitudes and institutions are changed, the assistance 'does not take.'" For example, about a quarter of total annual aid destined for Sub-Saharan Africa is swallowed up financing "failed economists' visits." What could be clearer!

—UNDP, *Human Development Report, 1994*

QUESTION 35

Is micro-credit a solution to the excessive debt of developing countries?

When the 2006 Nobel Peace Prize was given to Muhamma Yunus, founder of the Grameen Bank in Bangladesh, micro-credit became a hot news item. What if micro-credit could save the world? Loans of tiny sums of money, targeting mainly poor women or small craftsmen who were excluded from the classical banking system, would provide the missing resources to start or develop a business. The necessary sums were often very small, just tens or hundreds of dollars, and established banks refused to deal with such loans, on the one hand because the amount was too small, and on the other because the potential debtors were considered to be insolvent.

The money injected in this way has proved to have local repercussions, since the borrowers use it to improve access to basic social services (namely through local systems of social protection such as village mutual aid) or to develop handicraft or agricultural activities that are essential for the local economy. On top of which, experience has shown that such loans have a very high rate of reimbursement: the borrowers are able to gather sufficient capital to be in a position to pay back their debts. Moreover, the position of women is often enhanced by micro-credit since they are the main beneficiaries of these loans in the family. But at what price?

And here is the snag: micro-credit organizations impose high interest rates on the population, often annual rates of over 20 percent. Thus these organizations make significant profits and amass a major part of the wealth they have helped to create. Generally, the economic activity created or preserved does not really improve living conditions: it makes survival more organized, while the lenders are making profits. This is the reason why many organizations of the North, including established banks, have tried to capture a share of the market, which they consider profitable. It's the case, for example, of Jacques Attali, ex-advisor of the French president François Mitterrand and former president of the European Bank for Reconstruction and Development (EBRD), who had to resign in the wake of the scandal caused by extravagant expenses at the bank's headquarters. In 1998, he created PlaNet Finance, with a foothold in sixty countries, which finances and advises microfinance institutions in countries of the South. Not exactly philanthropy, but rather a quest for notoriety without excluding profit making and the added bonus of seeming generosity. The World Bank is also interested, which says it all.

[SIDEBAR]

Banks and Hedge Funds Focus Microfinance in India

Early in 2007, the first international investment fair for microfinance was held in the Indian capital. It gathered forty Indian institutions of microfinance (including SKS Microfinance, Share, Spandana, Basix) and the major private international finance institutions.[158] The microfinance sector is booming and increasingly attracting foreign investors, major banks and hedge funds. There are in India 36.8 million people who use microfinance for loans not exceeding $100 on average. The total volume of loans has increased by 76 percent in 2006–7, reaching $766 million. The rate of debt defaulting is only 2 percent. Some firms such as Sequoia (a U.S. company that invests in Google) or Unitus Equity Fund (another U.S. company that invests in eBay) have bought shares in SKS Microfinance. Western banks such as Citibank and Fortis-ABN-Amro have announced that they will also invest in SKS and other microfinance companies. According to the director of SKS, some hedge funds have also indicated their interest in investing in the sector. All those who have promoted microfinance as a real alternative, from the Brazilian president, Lula, to ex-presidents Jacques Chirac, Bill Clinton, and George W. Bush to the Spanish prime minister, José Luis Zapatero, and Kofi Annan, were surely thinking of a profitable investment for the bankers and

the private investment vehicles. The directors of the Mexican microfinance company Compartamos became millionaires in 2007.

In the context of a system as violent and iniquitous as neoliberal globalization, micro-credit certainly plays an attenuating role, but it is not an alternative. It applies bandages haphazardly on some cuts while an actual economic war rages on. Though its real impact is difficult to evaluate, the notion of micro-credit is recuperated by the finance establishment. By definition, micro-credit uses the same mechanisms as the logic of indebtedness and organizes and transfers wealth from the populations of the South to the creditors. Far from modifying social relations, it articulates with the capitalist system, in which it integrates perfectly.[159]

QUESTION 36
Have the policies promoted by the World Bank and the IMF contributed to the fight against climate change?

To tackle the problem of global warming, world leaders tried to set up an organized reduction in the production of greenhouse gases in 1997, with the Kyoto Protocol. But the fact that the United States went back on their signature after George W. Bush was elected in 2000 meant the strategy was doomed to fail. The Bali summit in December 2007 sought to build new post-Kyoto foundations, but again it led to a dead-end since the United States refused to commit itself to a binding, quantified agreement. The leaders of rich countries are thus far from having realized the scale of the problem. Emission trading was created, meaning that greenhouse gases can be sold like any other commodity, but so far, the goal has been to find a mechanism that will not force industrialized countries to reduce their own emissions, while giving the impression that the problem is under control.

At the end of October 2006 Nicholas Stern, advisor to the government on the economics of climate change and development, handed prime minister Tony Blair a 500-page report on the consequences of the current climate change and measures to counteract this trend. In his

report Nicholas Stern writes: "Climate change will affect the basic elements of life for people around the world—access to water, food production, health, and the environment. Hundreds of millions of people could suffer hunger, water shortages and coastal flooding as the world warms."[160] Implicitly, the diagnosis suggested in the report is a condemnation of policies implemented by the IMF and the WB, where Nicholas Stern was chief economist.

Until the early 2000s, even though several voices had been warning about the dangers of the search for limitless growth resulting in exhausted natural resources, the World Bank and IMF leaders kept claiming that such alarm was totally unfounded. Lawrence Summers, economist and vice president of the World Bank from 1991 to 1996, later secretary of the Treasury under William Clinton, claimed in 1991: "There are no limits on the planet's capacity for absorption likely to hold us back in the foreseeable future. The danger of an apocalypse due to global warming or anything else is nonexistent. The idea that the world is heading into the abyss is profoundly wrong. The idea that we should place limits on growth because of natural limitations is a serious error; indeed, the social cost of such an error would be enormous if ever it were to be acted upon."[161]

> The argument that a moral obligation to future generations demands special treatment of environmental investments is fatuous.
>
> —LAWRENCE SUMMERS, 1991[162]

Anne Krueger, chief economist at the World Bank during the Reagan administration, before taking up the position of number two at the IMF from 2000 to 2006, concurs with this view. In June 2003, during the Seventh International Economic Forum in St. Petersburg, she said: "Nor have we done irreparable harm to the environment. The evidence shows quite convincingly that economic growth brings an initial phase of deterioration in some aspects, but this is followed by a subsequent phase of improvement. The turning point at which people begin choosing to invest in cleaning up and preventing pollution occurs at a per capita GDP of about US$5,000." The more industrialized countries prove the contrary; they have overreached the per capita GDP $5,000 mark, and yet most of them still implement policies that entail an increase in pollution.

Lawrence Summers predicted that global warming would reduce growth by only 0.1 percent during the next two centuries. Nicholas Stern, on the other hand, concludes: "If we don't act, the overall costs and risks of climate change will be equivalent to losing at least 5 percent of global GDP each year, now and forever. If a wider range of risks and impacts is taken into account, the estimates of damage could rise to 20 percent of GDP or more."

The structural adjustment policies have weakened the capacity of developing countries to respond to natural calamities.[163] The World Bank and the IMF have imposed policies that have led to deforestation and the development of environmentally destructive energy mega-projects. The World Bank has supported projects that destroy natural protectors of coastlines, such as mangroves, which reduce the effects of tidal waves. It has refused to stop its loans to the sector of extractive industries, as recommended by a 2003 impact assessment report, commissioned by the Bank itself. It is responsible for a global fund for the protection of the environment, which is the same thing as leaving the fox to guard the chicken coop.

Since George W. Bush reneged on the Kyoto Protocol concerning the reduction of greenhouse gas emissions by the United States, world leaders have been talking at cross purposes insofar as climate change is concerned. For the developing countries, the countries of the North are the main emitters of carbon dioxide, and in the name of the right to development, the developing countries refuse any ecological constraint as long as the North does not reduce its emissions. On the other side, the leaders of rich countries invoke the rising carbon emissions of the developing countries, especially China and India, as an excuse to refuse to commit to quantified targets, which do not include the developing countries. But what they pretend to ignore is that the problem of global warming is due to the accumulation of carbon dioxide in the atmosphere since the Industrial Revolution of the nineteenth century, whereas the carbon currently emitted does not have an immediate effect. And the existing accumulation was put there exclusively by the industrialized countries.

> The populations of poor countries, who have until now contributed very little to the accumulation of atmospheric pollution (less than 20 percent), do not have the means to combat the effects of climate change and are the first to be affected. The responsibility of developed countries in climate change will remain higher for a long time to come even if the developing countries do end up emitting more carbon than the rich countries as will soon be the case.
>
> —JEAN-PASCAL VAN YPERSELE, Belgian climatologist[164]

Climate change thus contributes to even greater inequality, revealing the close link between environmental and social problems.[165] For this, let us consider an analogy developed by Wally Broecker, a professor at Columbia University, the concept of the carbon pie.[166] According to this theory, in order to limit rising temperatures to an average of 2°C, the concentration of carbon in the atmosphere must be limited to twice the level it was before the Industrial Revolution. This means that not only do carbon emissions need to be reduced, but also that there is a "carbon capital" that should not be exceeded, the famous pie that represents a total of 1,025 gigatons (Gt C). Quite a difference!

Yet, since the beginning of the Industrial Revolution, human beings have already taken a large bite: we have emitted about 305 Gt C (of which the countries of the North account for 80 percent, or 245 Gt C) leaving only 720 Gt C.[167] The question is how to share the remaining part of the pie. In an ideal world, the share should be proportional to the population. The countries of the North should have the right to roughly 20 percent of the total pie, that is, 205 Gt C, but this figure has already been exceeded by 40 Gt C. The only solution is for the North to buy back the part of the pie that it has so greedily consumed. In 2006, at the average rate of carbon quotas, on the European market, these 40 Gt C come to around $2.86 trillion, that is, more than twice the external public debt of all developing countries. And this is without factoring in that the North has to buy the part of the pie that it will consume in the future, which is no small portion, in view of current levels of emissions.

For Nicholas Stern, the least industrialized countries, although less responsible than others for global warming, will be worst affected: "All countries will be affected. The most vulnerable—the poorest countries and populations—will suffer earliest and most, even though they have contributed least to the causes of climate change." He adds, contrary to

the philosophy of neoliberal globalization, "climate change is the greatest market failure the world has ever seen, and it interacts with other market imperfections." That said, we are under no illusion: Nicholas Stern does not propose any alternative to the productivist model nor to market capitalism. He is simply raising the alarm to preserve the current system. He asserts that humanity can be both "green" and "pro-growth." He explains that the market for the protection of the environment will offer a new avenue for private profits. Finally, he argues that since the developing countries pollute less than industrialized countries yet suffer the most from global warming, they will be able to sell their right to pollute to rich countries. With the revenue obtained from the selling of these rights, they will be able to repair the damage caused to their populations.

Once more, the proponents of the dominant productivist model began by denying the existence of the crucial problem of environmental damage and global warming—and went on aggressively promoting policies making the situation worse. Then, when the situation became untenable, after a public display of regret, they let it be understood that the necessary measures had been identified. In other words, nothing has really changed.

In fact, the Structural Adjustment Programs imposed by the creditors have consistently implicated policies that *inherently* lead to environmental damage by depriving states of the responsibility of managing their own territories, their natural resources, and ecological balance in the common interest. Structural adjustment transfers this responsibility to private parties, often to multinationals that have no stake in the common interest. Their objective is to maximize profits in the shortest time possible.

Obviously, the analysis must not be limited to a North/South contradiction. Capitalism, which dominates the planet, is driven by the search for immediate profit without any consideration for the cost to nature, of which humanity is one element. This logic holds true for all multinationals, both of the North and South. The same logic prevails in the policies embraced by most governments, South and North. The multinationals of the South (the Brazilian Petrobras or the Malaysian Petronas in the oil sector, the South African AngloGold Ashanti in the mining sector, the Chinese multinationals) are destroying the biotope of Southern populations just as gleefully as those of the North are theirs. The explanation lies in the productivist capitalist logic that undergirds their actions. A break with capitalism

is at the heart of any serious response to ecological problems. The only just and long-lasting solution is to question the productivist capitalist system, which structurally generates environmental damage and rocketing inequality. We cannot afford not to take this into account.

QUESTION 37
What is NEPAD?

The decolonization of African countries gave rise to great hope. At last the continent was to be able to develop. However, the conditions for such development have not been met, and the social and economic situation has not improved, far from it. The titles of books by the well-known French anti-colonialist ecologist, René Dumont, are telling: from *L'Afrique noire est mal partie* (Black Africa makes a bad start) in the 1960s to *L'Afrique étranglée* (Strangled Africa) in 1980, the continent had sunk ever deeper into poverty.

In 1980, the Lagos Plan was drawn up on the initiative of African leaders within the Organization for African Unity (OAU). It aimed to promote endogenous development and industrialization in Africa. Unfortunately it has remained a dead letter, undermined by the Bretton Woods institutions that launched structural adjustment policies whose objectives were in contradiction with those of the Lagos Plan (see Q15 and Q16).

At the end of the 1990s, two African development plans were constructed by African governments, which received approving nods from governments in the North. On the one hand, the Millennium African Plan was initiated by presidents Thabo Mbeki of South Africa, Olusegun Obasanjo of Nigeria, and Abdelaziz Bouteflika of Algeria, on the theme of African renaissance. On the other hand, the Senegalese president, Abdoulaye Wade, launched the Omega Plan, based on the creation of a blatantly liberal African common market. At the beginning, these plans were sympathetic to several Pan-Africanist circles.

The two plans were merged in 2001 to become the New Partnership for African Development (NEPAD). This aims to provide the dynamics needed to fill the gulf that separated Africa from the industrialized

countries; in other words, to bring modern practices and economic growth to Africa. Its stock in trade is to promote private investment to integrate the continent into world markets. Thus Africa, which represents only 2.3 percent of world importations, against 4.5 percent in 1980,[168] is seen as an open playing field for private initiative. At the Dakar Summit in April 2002 on the financing of NEPAD, multinationals of the North, like Microsoft, Hewlett Packard, Unilever, or TotalFinaElf, were very much present.

NEPAD sets out ten priorities, from good governance to access to international markets, from human development to infrastructure. African leaders have also promised to avoid backsliding and to be very vigilant (even though instability and conflict are often partly due to the behavior of multinationals in the country), thus hoping to win the good grace of the moneylenders.

NEPAD's founders were received and encouraged several times by the G8 leaders in 2001 and 2002. This African initiative to attract capital and multinationals, which has won the approval of the big powers, has had the effect of enforcing IMF and World Bank policies across the continent. It is no coincidence that the French representative for dealing with NEPAD is Michel Camdessus, former Director-General of the IMF.

The external conditionalities imposed by the IMF through the Structural Adjustment Programs, described in detail by the press, encounter great reluctance among local populations. The idea of NEPAD was therefore to transform these into internal conditionalities, proposed by the African heads of state themselves. Once again, this partnership is a façade that barely conceals the economic submissiveness of Africa.

The projects under consideration within this new framework still bow to the same logic (see Q10): a gas pipeline from West Africa or between Algeria and Nigeria; a so-called transahelian motorway from Dakar to N'Djamena; railway links between Benin, Niger, Burkina Faso, and Togo (the Geftarail project); the rehabilitation of the oil refinery in Mombasa (Kenya) and the pipeline at Eldoret; the Grand Inga project in DRC to export energy all over the continent, and many others.

Behind this African initiative lies an attempt by four ambitious African heads of state to find a place for themselves in the ongoing economic scheme of things. Far from demanding the cancellation of the debt of African states or claiming reparation for centuries of pillage and slavery, NEPAD's main actors, especially Abdoulaye Wade, are a little overeager to sweep aside such aspirations, preferring to discuss future investments in Africa.

> We have not come here to be offered money. The idea never crossed my mind. The important thing is the commitment made by the G8, which has accepted the new partnership we are proposing. You know, they did not have to receive us.
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> —ABDOULAYE WADE, president of Senegal, G8 summit, June 2002

But though NEPAD's calculations are based on $64 billion of investment a year and a projected growth rate of 7 percent from now until 2015, these figures are for the time being far from feasible. Indeed, foreign private capital in general prefers to go where the growth is driven by public policies. However, African governments suffer from a lack of funds, precisely because of the debt.

When capital flows in, the attraction is in the raw materials that lie underneath the African soil. Since 2005, China has become one of the major investors in Africa. When they are invited, the African presidents quickly rush to Beijing, to the dismay of London, Paris, and Washington. We are very far from an indigenous development project.

> The NEPAD strategy is not to raise issues of repatriation of the money embezzled by African potentates and deposited in foreign accounts, nor of cancellation of the external debt whose service swallows up the best part of the budget of certain countries. [...] In view of the difficult situation the African countries are in, undoubtedly the alternative is to demand the cancellation of the entire external debt, once and for all, and to make use of internal resources, especially by mobilizing savings. The NEPAD document does not give much importance to this issue and proposes no new actions which might end African dependence on external powers.
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> . . . It is scandalous that the African leaders broach neither the crucial question of the reform of the international financial institutions,

which impose policies with no regard for the social and economic rights of their countries, nor the question of the modification of unfair world trade rules, with their negative repercussions on people's food security and health. . . . NEPAD should have taken inspiration from the experience of the African delegates' struggle at the failed Seattle talks, and advocated joining forces with the other Third World countries to reverse the negative tendencies of corporate-driven globalization.

—MOUSSA TCHANGARI, "Un projet néo-libéral pour l'Afrique," *Alternative* (Niger), July 24, 2002

On the pretext that it was time for action, not words, the populations were not consulted. Africans' social, economic, and cultural rights, especially those of women, have not been taken into account. African civil society, which cannot possibly be left out, has not been considered either as a force for proposals (in defining alternatives) or as an opposition force to be reckoned with in countering the tendencies toward authoritarianism or neglect of the democratic process. In the opinion of most people, NEPAD is already part of the past.

CHAPTER NINE

Debt Cancellations and Suspensions of Payment in the Past