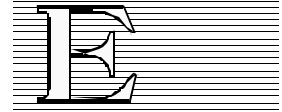




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ECONOMIC COMMISSION FOR AFRICA

Twenty-third meeting of the Committee of Experts
of the Conference of African Ministers of Finance,
Planning and Economic Development

Kampala, Uganda
18-20 May 2004

ECONOMIC COMMISSION FOR AFRICA

Thirty-seventh session of the Commission/Conference
of African Ministers of Finance, Planning and
Economic Development

Kampala, Uganda
21-22 May 2004

**Solving Africa's External Debt Problem to Finance Development:
A Progress Report**

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Solving Africa's External Debt Problem to Finance Development: A Progress Report

Background

1. At its last session held on 1 June 2003 in Addis Ababa, Ethiopia, the Conference of African Ministers of Finance, Planning and Economic Development recognized domestic debt as a critical issue and recommended that it be taken into account in the effort to achieve overall debt sustainability. The Ministers invited member States to take the initiative to design the policies and instruments that would constitute the next step in the international community's efforts to reduce Africa's debt burden. In this regard, the conference of Ministers welcomed the proposal of the Executive Secretariat of the Economic Commission for Africa (ECA) to convene an African experts group meeting in 2003 to discuss strategies for reducing Africa's debt, to be followed by an international conference on Africa's debt in 2004.

2. Of particular concern to African Ministers was the fact that since the 1999 G8 Summit in Cologne, at which the Jubilee 2000 Campaign won a commitment from rich nations to cancel \$US 100 billion of debt for 42 of the world's poorest nations, only 8 African countries have reached their completion points under the enhanced Highly Indebted Poor Countries (HIPC) initiative. In the meantime, the economic conditions have considerably worsened and many countries, including those few that received debt relief from HIPC initiative, have backtracked into further unsustainable debt.

3. The Economic Commission for Africa together with the Republic of Senegal hosted an Expert Group Meeting on November 17-18, 2003 in Dakar to explore workable solutions to Africa's external debt problem. The meeting was also convened as a result of a request made to His Excellency, Abdoulaye Wade, President of the Republic of Senegal by African Heads of State in Lomé in 2000.

4. The 80 participants of the meeting were representatives from African Ministries of Finance and Central Banks, as well as experts from African and international civil society, the IMF, the World Bank and the scientific community.

Issues raised in the meeting

Achieving Long-Term Debt Sustainability

5. The Experts noted that the appropriate definition of debt sustainability and the application of its concept is key to reach a long-term solution to Africa's external debt problem.

6. On the measurement of debt burdens, Experts noted that the concept of net present value (NPV) of debt that is used in debt sustainability analysis may not be an accurate measure. The Experts recommended that the benefits of simply using stock measures should be further considered. The Experts proposed that multiple indicators should be used in the analysis of debt sustainability to enrich and deepen the insight into the country-specific circumstances of the debt crisis. This should include indicators of debt stock and debt servicing costs, relative to export earnings and total revenue.

7. Experts recognized that the key burden for African governments is fiscal liquidity. Therefore, budget revenue should be the key denominator for government debt, and export earnings for total national external debt (other denominators can be used as extra checks if required).

8. Experts suggested that achieving African countries development goals, including the MDGs, without running into future debt servicing problems will require a prudent strategy for future borrowing tailored to country specific circumstances. Experts emphasized that resource transfers beyond countries' sustainable debt-serving capacity should be in the form of grants, not debt flows that could lead to future debt servicing problems. The Experts noted that a forward financing strategy is critical that takes into account the impact that the grant-versus-loan composition of external finance has on debt sustainability.

9. Experts noted that debt of "semi-HIPCs" like Angola and Kenya, non-IDA countries like Nigeria, and severely indebted middle-income countries like Gabon should also be considered.

10. Experts emphasized that a lasting solution to Africa's debt problems will require good economic governance and management on the part of African countries. Experts underscored the responsibility of each African country to enhance and consolidate progress in that regard.

Legal Aspects of External Debt Management

11. Experts recognized that the legal aspects of external debt are an important factor in understanding the causes of the current debt burdens of African countries. The Experts echoed the President of Senegal's concern about odious debt. The discussion focused on the relevance of the legal doctrine of odious debt today, and what mechanisms can be put in place to prevent odious debt from being incurred in the future.

12. Experts proposed the establishment of an Ad hoc Task Force to review the modalities required for the establishment of an institution that would identify odious regimes in Africa. Such an institution would provide public information ex-ante on the character of a regime, which would reduce information asymmetry such that the country would not be legally bound to repay such debts and creditors would know the rules of the game in advance and could only lend at their own risk.

Financing Debt Relief for Development

13. In their deliberations, Experts emphasized that any consideration of Africa's financing needs and prospects for debt relief needs to be put in the wider context of financing for development. They agreed that achieving the MDGs would require a substantial increase in financing of development assistance. Therefore, any consideration of Africa's financing needs and prospects for debt relief needs to be put in this wider context. They also put forward several suggestions on how to make financing for development consistent with MDGs. In particular, the Experts underscored the need to assess the current aid levels, their composition and quality, and the balance between grants and loans.

14. While applauding the heightened priority under the HIPC initiative to invest in social sectors, the Experts cautioned the African governments not to neglect investments in productive sectors. They noted with concern that there has been a sharp reduction in the share of aid going to productive sectors.

15. The Experts shared the opinion that debt relief has many advantages compared to aid. Debt relief is more predictable than bilateral aid, has a long-term horizon; reduces transactions costs of managing aid; and acts like direct budget support, therefore increasing recipient ownership. They strongly encouraged the international community to finance further debt relief as an important way of financing the MDGs in Africa.

16. The Experts were of the opinion that International Monetary Fund (IMF) resources could be used for funding further debt relief. One recommendation was to make use of IMF gold reinvestment or sales, as has been done before. For example, it was estimated that selling half of its gold reserves could more than fund all the additional relief needed for topping up existing HIPC countries with the remainder being used for new HIPC countries. Another option is to use Special Drawing Rights (SDR) allocations to create additional global reserves for reallocation to debt relief.

Minimizing the Impact of Commodity Price Volatility

17. The Experts recognized that such export price fluctuations due to external shocks are at the heart of many African countries' failure to exit the debt trap.

18. The Experts considered the establishment of a central institution, such as a marketing board which could enforce contracts and provide transparent information to market participants, as a way for avoiding above mentioned market failures. Further consideration should be given to the benefits of the possible re-establishment of these kinds of organizations.

19. The Experts were of the opinion that market-based mechanisms for commodity risk management will need to be supplemented with official financing to support countries suffering from terms of trade shocks. It was noted with concern that HIPC countries currently have minimal access to this kind of finance.

The Way Forward

20. The Experts underscored the fact that lack of a consolidated African position and an effective and collective voice to engage in constructive dialogue with Africa's partner countries and institutions with regard to debt relief was at the heart of the problem. A sense of urgency was expressed to put an end to African countries' reacting too late to global policy proposals that have vast economic implications for Africa.

21. The Experts recommended that an Ad hoc Technical Committee should be established by ECA to facilitate timely and competent African responses to emerging global policy proposals on debt relief. The committee should be composed of experts from NEPAD, African Union, African Development Bank, some member States and subregional organizations under the leadership of the Economic Commission for Africa. The recommendations of the Technical Committee should be presented to the African Ministers of Finance, Planning and Economic

Development at their next meeting in May, 2004 and thereafter to the African Union Heads of State Meeting in July, 2004.

22. Finally, the Experts thanked the Economic Commission for Africa and the Republic of Senegal for bringing them together for this important meeting. They extended their special appreciation to His Excellency, President Abdoulaye Wade for his exceptional leadership and outstanding contributions to the deliberations and to the warm hospitality afforded to them in Dakar.