5

Additional issues

Funding the HIPC initiative

Gold sales

5.1 The problem of funding the Highly Indebted Poor Country (HIPC) initiative remains to be resolved. One of the suggested methods was through the sale of 10 million ounces of the International Monetary Fund's (IMF) gold reserves, a view put to the Committee by Mr Hill[1] and Mr Hewett[2] at the seminar. However, Mr Pearl of the Department of the Department of the Treasury outlined the Australian Government's opposition to the proposals 'given the fragility of the gold market and the dependence of many HIPC countries on gold exports.'[3]

5.2 The Committee believes that the current low level of gold prices would mean that any gold sales now would be counterproductive. The export industries of those HIPC countries that rely on gold sales will be affected by another sustained fall in the price of gold that IMF sales are likely to have. According to internal IMF documents, the likely effect on the export earnings of 15 HIPCs is likely to be in the order of $US440 million. Five countries are likely to bear the brunt of this: Bolivia, Ghana, Guinea, Guyana and Mali.[4] Furthermore, gold sales would probably see the

1 Hill, Transcript, p. 49.
2 Hewett, Transcript, p. 72.
3 Pearl, Transcript, p. 29.
4 Egan, M, Reuters, 'Gold sales would harm poor countries - IMF documents', 1 September 1999.

addition of new nations to the HIPC list, as their debts continued to compound while their export revenues dwindled.

5.3 A more recent plan to revalue 14 million ounces of the IMF's gold stocks without actually selling them on the open market holds some promise for funding the initiative. The IMF's substantial stocks of gold are currently valued at US$46 an ounce, although the current market price of gold is much higher. Under the plan, the IMF would sell gold to developing countries at market prices and put the profits towards the HIPC initiative. These countries would then sell the gold back to the IMF at the same price and receive assistance under the HIPC initiative. Because this transaction does not take place on the open market, instead between the IMF and the individual nation, the IMF hopes it will have no negative impact on the price of gold.[5] Professor Remenyi suggested to the Committee at the seminar the possibility of a revaluation of the IMF's gold reserves.[6]

5.4 At the time of writing, the price of gold has rebounded strongly from the June 1999 quarterly average gold price of US$274 per ounce, the lowest real quarterly gold price since December 1972. This is probably a result of both the IMF's decision not to sell its gold reserves on the open market and a guarantee by European central banks not to sell more of their own gold reserves for 5 years. Given the detrimental effects of gold sales on HIPCs and the alternative proposal put forward by the IMF, the Committee does not believe that gold sales are a feasible way to fund the initiative.

Recommendation 4

The Committee recommends that the Government maintain its policy of opposing the sale of IMF gold reserves.

Additional funding

5.5 Even with the IMF gold revaluation plan, the HIPC initiative will not be fully funded. It is clear that additional contributions towards the initiative will be required from IMF and World Bank member countries. As of 16 September 1999, Australia's contributions at the IMF stood at 1.54 per cent of the total quota. It is reasonable to expect that Australia contribute

5 Egan, M, Reuters, 'US endorses IMF gold revaluation plan', 11 September 1999.

6 Remenyi, Transcript, p. 31.

a similar proportion to any shortfall in funding of the HIPC initiative after offering its bilateral debt owed by HIPCs - this is the price for the seat at the IMF's table.

Recommendation 5

The Committee recommends the Australian Government give consideration to additional contributions towards the HIPC initiative, in line with Australia's levels of obligation to the IMF and World Bank.

Ethical issues

5.6 The logic of the argument for debt forgiveness is based primarily on the manner in which debt leads to poverty, and how poverty leads to human suffering. As Mr Hewett reminded the Committee at the seminar:

> The average life expectancy in HIPC countries is 51 years, 12 years less than in developing countries and 26 years less than in industrialised countries like ours. In HIPC countries the under-five mortality rate averages 156 per 1,000 live births. That translates into 3.4 million deaths annually, most of them resulting from infectious diseases which could be averted through low cost interventions.[7]

5.7 These deaths, happening in one place at one time, would constitute an unrivalled disaster. But because they happen in so many places over so many years, they are a tragedy instead. This does not diminish the ethical imperative that something must be done to provide people in developing countries with the opportunity to enjoy the universal rights in instruments like the *International Covenant on Civil and Political Rights*, the *International Covenant on Economic, Social and Cultural Rights* and the *Universal Declaration of Human Rights.*

5.8 Some causes of social inequality are unjust because they are morally arbitrary. Although the HIPCs initially welcomed these loans, for those who have seen no benefit from them, and for those generations yet to be born, indebtedness represents this kind of moral arbitrariness. Professor Remenyi outlined the need for debt reduction in terms of justice:

7 Hewett, Transcript, p. 67.

> Debt reduction is a justice issue because poor people have had no say in how these debts were incurred, how they were spent or about the things that will be foregone if they are forced to repay them - at core, that is it.[8]

5.9 For Mr Hill, the justice of debt reduction was based on the notion that the citizens of developing countries should not be forced to repay odious debts. As he described the position of Jubilee 2000:

> One of the key things that Jubilee has strongly argued for—and this has been passionately put on the Jubilee platform by our partners right across the developing world—is the injustice of having to pay back loans that were taken out for corrupt means, for unjust means.[9]

5.10 Archdeacon Newman's position on the ethics of debt were guided by knowledge of his faith:

> The Judaeo-Christian tradition has a profound concern with the ethics of debt. Interest on borrowing was not permitted. At the heart of the rejection of debt was, I think, the gut feeling that almost inevitably someone suffers, usually the debtor.[10]

5.11 The complicity of international lending agencies, of which Australia is a member, is a source of Australia's responsibility in the debt crisis. To remedy this situation, Ms Hunt suggested that the main global institution striving for economic justice was development cooperation between states. However, development assistance was ineffective while developing countries remained highly indebted. In order to improve the situation, she suggested that:

> Debt reduction, it seems to me, is the key circuit-breaker for these very vulnerable poor countries. It is crucial that it happens.

5.12 Equality of opportunity is a principle welcome to most Australians. In the case of debt, the Committee accepts that the people of developing countries are denied equality of opportunity by virtue of the economic circumstance they are born into. For them, luck of the draw leads to a life that is bound by poverty. Their countries' debt burdens, poor endowments of natural resources and corruption among their elites has not been caused by the ordinary people who suffer most as a result.

8 Remenyi, Transcript, p. 39.

9 Hill, Transcript, p. 48.

10 Newman, Transcript, p. 58.

Moral hazard

5.13 Balanced against the need to relieve human suffering is the reality that development assistance and debt forgiveness cannot be unlimited. Despite the massive disparity in wealth and wellbeing between developed and developing nations, the resources of developed nations are finite. Developed economies have priorities of their own - there are social justice issues within economies as well as between economies.

5.14 Justice issues inevitably raise questions of deservedness. In the case of many HIPCs, their economies have been poorly managed in the past, albeit with the complicity of international lending agencies and the governments of developed nations.[11]

5.15 The moral hazard argument suggests that providing debt forgiveness or development assistance to corrupt regimes or badly managed economies, rewards and encourages that behaviour. In the case of Zambia for example, development assistance comprised only 0.2 per cent of GNP in the early 1970s, and grew to 8 per cent in the early 1990s while economic policies deteriorated. The result was that real per capita GNP was 8.5 per cent of United States' income in 1966, but fell to 3.8 per cent in 1990.[12]

5.16 The High Commissioner for the People's Republic of Bangladesh, His Excellency Mr Q A M A Rahim informed the seminar that he believed his country was suffering because it had pursued progressive social and economic policies, as resources were diverted towards countries that had not followed such policies. Despite the fact that 40 per cent of Bangladesh's population lived under the poverty line it was not a HIPC and did not stand to gain from current debt forgiveness proposals. Furthermore, it had opened its economy under World Trade Organisation (WTO) rules, invested heavily in health and education and was achieving some positive results because of these measures. However, as Bangladesh's position improved relative to other poorer countries, the amount of development assistance it received declined. As His Excellency stated:

> The results we have seen this year—and we were afraid that something like this could happen—means we may be in difficulty. This year the commitment of aid by the World Bank is only about one-third compared to last year.[13]

11 Hughes, Transcript, p. 18.

12 The International Bank for Reconstruction and Development/The World Bank, 1999, *Global Development Finance*, p. 74.

13 H E Mr Rahim, Transcript, p. 77.

5.17 The Committee believes that the decline in aid flows this decade presents a real threat to those economies that are better managed, as resources get diverted to relieve the debt of countries that are poorly managed.

Debt repudiation

5.18 Professor Hughes' expressed the view at the seminar that the solution to the debt problem lay in developing countries repudiating their debts, rather than seeking debt relief through established means. Her arguments against debt forgiveness can be summarised as follows:

- Bad economic management of developing countries is the reason for their high debt and poverty, the money being misappropriated by successive elites. The way to remedy this situation is through contrition, best demonstrated by the repudiation of debt and for these countries to change.
- Because funds are fungible - the money provided to a government for debt relief can be used for other purposes by moving money to other areas - there is no guarantee that money returned to a country for debt relief will be used for productive social, educational or economic purposes.
- Debt relief should not be granted as it is paternalistic and reminiscent of colonialism.
- Debt relief should not be granted because it will enable elites to take out new loans, and because nothing will trickle down to the poor of developing countries.
- Debt relief should not be granted because it will divert aid from governments with good economic track records to governments with bad records.
- Current debt relief proposals were likely to benefit international financial institutions and western non-government organisations (NGOs) more than the poor people of developing countries.[14]

5.19 The proposal to support elements of debt repudiation received some qualified support during the seminar from Mr Hill. As he remarked:

> We would support Helen Hughes' concept of being able to just repudiate those components of the debt which have come about

14 Hughes, Transcript, pp. 18-21.

> because of corruption and injustice and complicit lending by Western banks and Western governments.[15]

5.20 For Australia, debt repudiation in HIPCs is possibly a more attractive proposal than providing extra funding for debt forgiveness. Australia has very few bad bilateral debts owed by them, and would stand to lose little from debt repudiation. The countries that repudiate their debts can then seek development assistance on a grant basis from countries like Australia, which may genuinely benefit their development. On the other hand, support for debt forgiveness will require additional funds from the Australian Government.

5.21 Without adequate social expenditure, economic growth and diversification of their economies, the HIPCs will soon become saddled with new debt, regardless of debt forgiveness or debt repudiation. As the Hon Kathy Sullivan MP stated:

> …because new loans are continually being taken out, there will never come a time when the slate is wiped clean.[16]

5.22 While Australia should not have to pay for the poor lending practices of other nations or institutions, this view disregards Australia's place in the community of nations and the responsibilities that accompany it. Though this debt is not Australia's, the solution for indebtedness lies in all our hands. Professor Remenyi justified Australia's participation in the issue:

> We could argue this is not our problem but we are members of the World Bank and the IMF. We are stakeholders in those actions. Just as we as members of the Australian society commit ourselves to our own treaties and laws, as members of the World Bank we must commit ourselves to a problem that the World Bank and the IMF have inherited or imposed on themselves—however you look at it—and we must commit ourselves to being part of the solution to that problem.[17]

5.23 The effect of debt repudiation on these countries cannot be discounted. We have already established that development assistance is merely part of the equation - adequate confidence in the economies of these nations must also be maintained to attract foreign investment, and debt repudiation would not provide this confidence.

5.24 At the seminar, Mr Hill provided the comparisons of Tanzania and Uganda. In the case of Tanzania, a country which repudiated debts

15 Hill, Transcript, p. 49.

16 The Hon Kathy Sullivan MP, Transcript, p. 3.

17 Inder, Transcript, pp. 26-27.

during the 1980s, the punishment on the Tanzanian economy was great. On the other hand, Uganda considered debt repudiation, but decided that the penalties for doing so were worse than receiving assistance from the IMF - with conditions attached.[18]

5.25 Archdeacon Newman expressed similar concerns, that debt repudiation was a dangerous option because its results were unknown. As he went on to say:

> Debt repudiation would only be effective if there were an agreement within the international community as to what that exactly would mean. That sounds very [much] like debt forgiveness.[19]

5.26 Professor Remenyi believed that there needed to be an institutional process for allowing countries access to 'some kind of bankruptcy process' with standing in international law.[20] Professor Remenyi also suggested that due to the seriousness and uncertain effects of debt repudiation, Australia should support debt forgiveness in the first instance, and only support debt repudiation where this had clearly failed:

> If the legitimate efforts made to get conditionality moving and to ensure that the readjustment of budgets to favour investment in the improvement of livelihoods of people and the opportunities of people do not work and break down, then the international community, including Australia, should officially support debt repudiation. But that has to be our backup position rather than our forward position.[21]

5.27 The Committee believes that debt repudiation would not be acceptable to the international community and institutions like the IMF and World Bank, a point that Professor Hughes admitted at the seminar.[22] Australia's support for debt repudiation, however moral, would be in opposition to these interests. The issue of debt repudiation could also be seen to be working against the fundamental principles such as security of contracts and property rights that Professor Hughes and Professor Duncan asserted at the seminar.

5.28 Just as there is no guarantee that countries that are granted debt forgiveness will not seek new debts to develop their economies, nor is

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18 Hill, Transcript, p. 47.

19 Newman, Transcript, p. 60.

20 Remenyi, Transcript, p. 44.

21 Remenyi, Transcript, p. 85.

22 Hughes, Transcript, p. 32.

there any guarantee that countries that repudiate their debts will not do the same, resulting in these countries reverting to the same high-debt, low export situation.

Governance

5.29 During the seminar the question arose of how a focus on governance would benefit developing countries, and more specifically, how it would contribute to debt management.[23]

5.30 The Simons Committee Report used the definition of good governance as 'the effective management of a country's social and economic resources in a manner that is open, transparent, accountable and equitable.'[24] It emphasised the need for:

- efficient and accountable public administration, to ensure there are open and accountable economic policies to encourage growth, and equitable distribution of the proceeds of that growth;
- democratisation and participatory development, necessary for legitimacy and a sense of ownership of a government's policies; and
- respect for human rights and the rule of law, to establish a system of rights that will extend to the impartial enforcement property rights, accompanied by the concept of the 'right to development'.[25]

5.31 Mr Pearl informed the seminar that debt forgiveness alone was an insufficient condition for better living standards, unless accompanied by strong policy and governance frameworks.[26] This view was supported by Professor Duncan[27] at the seminar.

5.32 The Hon Kathy Sullivan MP described the Australian Government's stance with regard to good governance:

> We also contribute to good economic management, including the management of debt, through the strong governance focus in our aid program. Good governance is essentially the competent management of a country's resources in a manner that is open,

23 Walker, Transcript, p. 13.

24 Simons H P, et al, April 1997, *One Clear Objective: Poverty Reducation Through Sustainable Development*, p. 223.

25 *ibid*, p. 224

26 Pearl, Transcript, p. 30.

27 Duncan, Transcript, p. 33.

> transparent, accountable, equitable and responsive to people's needs. The Australian government has identified good governance as a priority sector in our aid program, along with health, education, agriculture, rural development and infrastructure.[28]

5.33 In the 1999-2000 Budget, Australia's funding for governance projects stood at A$148 million. The funding was distributed amongst three sectors: A$45.88 million for economic management and private sector development; A$51.88 million for public sector reform / capacity building; and A$50.32 million for human rights.[29]

5.34 In practice, Australia's funding for good governance means that specific projects are undertaken to: support judicial, parliamentary and external review systems; combat corruption; and assist civil society in developed and developing countries. For example, Australia will provide A$70 million worth of assistance over 4 years to assist Indonesia's economic capacity, such as the newly formed Bankruptcy Court. It will also provide A$20 million over 5 years to fund the Papua New Guinea Provincial Financial Management Training Program, which will assist with the management of Papua New Guinea's economy.[30]

5.35 The need for good governance is based on the World Bank's own research, which determined that one of the key reasons for the contrast in the performance of some developing countries was the poor state of institutional systems and government administration and policy. The World Bank concluded that there needed to be an appropriate environment to allow private sector growth, a prerequisite for reducing poverty.[31]

5.36 Another study of 56 developing countries indicated that those with good economic policies will benefit more from development assistance than countries that do not have such policies. The per capita growth rate in the economy of countries with good policies was 3.7 per cent, compared to 2.2 per cent for countries that did not received aid. By comparison,

28 The Hon Kathy Sullivan MP, Transcript, p. 5.

29 AusAID, 'Australia's Overseas Aid Program', 11 May 1999, http://www.ausaid.gov.au/publications/general/budget99/AusAID_Budget1999-2000.pdf, 19 October 1999.

30 AusAID, 'Australia's Aid Program, Memorandum for the DAC Peer Review of Australia 1999', July 1999, http://www.ausaid.gov.au/publications/general/DAC_Memorandum1999.pdf, 18 October 1999, p. 28.

31 The International Bank for Reconstruction and Development/The World Bank, 1999, *Global Development Finance*, p. 74.

developing countries that did not have good economic policies did not significantly benefit from the aid they received.[32]

5.37 The need for a greater degree of transparency in government was made even more evident after the 1997 Asian currency crisis. Witnesses at this Committee's seminar on the topic in March 1998 described how a lack of transparency in the banking sector was a significant factor in the events that led to economic hardship in many countries in Australia's region.[33] The steps that Australia took during the late 1980s and early 1990s to improve transparency and management of its own domestic banking industry has meant that Australia's banking system is well regarded in the region.[34]

5.38 Ms Hunt also supported good governance programs, although she lamented their lack of funding, especially in HIPCs:

> I hope that any recommendations that this committee would make will place the policies in relation to debt in a wider framework of a package which would involve increased aid—including for governance in Africa. We currently provide $1 million a year to 19 countries for governance; we may achieve some things but we are not going to achieve a lot with that.[35]

5.39 The Committee welcomes the Australian Government's specific focus on governance in its aid program. Good governance is necessary to promote transparency and accountability in economic and political systems to avoid a recurrence of the crisis that has so severely affected countries in the region and around the world. As such, it forms a prerequisite for sustainable and broad-based economic growth. As most of Australia's aid is focused on the immediate region, and very little of it in Africa where most HIPCs are, there will be little opportunity to share the benefits of Australia's expertise in governance with the world's poorest nations.

Democracy in Nigeria

5.40 The Committee was particularly encouraged by the democratic elections that took place at the local, state and federal level in Nigeria during 1998 and 1999. During the seminar, the Committee was fortunate to be

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32 *ibid*.

33 Joint Standing Committee on Foreign Affairs, Defence and Trade, May 1998, *The Asian Currency Crisis: Report on a Seminar on the Asian Currency Crisis and its Effect on Australia*, Transcript, p. 103.

34 *ibid*, p. 58.

35 Hunt, Transcript, p. 79.

informed by Mr Christopher Ariyo of the transition to democracy in Nigeria:

> The elected legislators and executives have all been sworn in and the wheel of good governance has started rolling well in Nigeria. The judiciary has been given new teeth. The respect for the rule of law—very crucial in a market controlled economy—is already very visible.[36]

5.41 Nigeria's new President, Olusegun Obasanjo has already taken substantial steps towards improving adherence to the rule of law in order to provide the framework for renewed investor confidence in the Nigerian economy.

> President Obasanjo has also submitted an anticorruption bill to the Nigerian National Assembly. The bill is to make Nigeria's economic environment investment friendly. It is to ensure transparency and accountability in governance—like what is obtainable in the OECD countries. The bill is to give a 'fair go' to all Nigerians, corporate and human.[37]

5.42 The Committee also notes the assistance the House of Representatives Committee Office provided to the federal and state legislatures of Nigeria in May 1999, organised by the Commonwealth Parliamentary Association.

5.43 However, the difficulty of demonstrating a commitment to good economic policies was pointed out to the Committee at the seminar by Professor Duncan.[38] The HIPC initiative is an attempt to create the positive environment over a period of years that is necessary to attract foreign investment. Investor confidence is something that must be created, but more importantly, it must be retained as well.

5.44 The elements of good governance - transparency, accountability, participation and predicability - have all evolved over recent years and taken on added importance in both developed and developing countries. As a robust democracy with ample experience in the practice of good governance, Australia has the ability to influence those countries that are willing to accept Australian aid and advice. Australia has assisted in the construction of institutions that will benefit the people of developing nations by improving the management of their economies, and by providing a bulwark against corruption.

36 Ariyo, Transcript, p. 56.

37 Ariyo, Transcript, p. 56.

38 Duncan, Transcript, pp. 79-80.

Conditionality

5.45 The debt crisis that has overwhelmed the HIPCs has its basis in many factors, although mismanagement of the economies of HIPCs has been a particular concern, especially for multilateral institutions like the IMF and the World Bank. Debt forgiveness under the HIPC initiative has been made conditional on countries agreeing to reform their economies under the IMF's Enhanced Structural Adjustment Facility (ESAF).

5.46 The Committee believes that it is a priority to ensure that recipient countries improve their policies to ensure that the current debt situation does not re-occur. Fundamental to this improvement is a respect for the rule of law and the impartial enforcement of contracts by the judiciary of a nation.[39]

5.47 However, opinion differed significantly at the seminar as to whether good policies and institutions could be imposed upon developing countries, or whether these countries had to choose to develop them unilaterally.

5.48 The Hon Kathy Sullivan MP suggested that:

> Debt write-offs, without appropriate conditions attached, can send the wrong signals to poor countries managing their economies well and, in a sustainable fashion, could encourage the further accumulation of unsustainable debts and may discourage creditors from providing future assistance.[40]

5.49 Mr Pearl further outlined the Government's support for making debt forgiveness conditional on the pursuit of good policies:

> Forgiving or rescheduling debt under the HIPC initiative has the added advantage of rewarding those countries which are pursuing sound economic and social policies. Debt relief will not alleviate poverty, generate sustainable growth and raise living standards unless it is accompanied by strong policy and governance frameworks, as others have pointed out. The HIPC initiatives conditionality requirements provide clear incentive for countries to go down this path. Forgiving debt in the absence of these conditions raises the risk of moral hazard— that is, encouraging countries to run up unsustainable debts—and at a more practical level provides no assurance that the benefits of relief will flow to sound poverty reducing and other social programs.

39 Duncan, Transcript, p. 33.

40 The Hon Kathy Sullivan MP, Transcript, p. 4.

5.50 As Professor Duncan elaborated at the seminar, making development assistance conditional on structural adjustment was a reaction by lending agencies and governments to the failure of many aid projects, especially in Africa. However, his point was that conditionality alone would not solve the problems of developing countries. His suggestion was that regardless of conditionality, only those countries genuinely interested in good policies and willing to implement them would advance materially.[41]

5.51 Professor Hughes' experience of the difficulties of making conditionality work was outlined to the seminar. Her belief was that imposing conditions on developing countries was an impossible task:

> I spent 15 years at the World Bank discussing conditionality, looking at it, seeing if it had been met and all the rest of it, and there is no way that you can make the conditionality work...I do not think there is any way of forgiving debt that will lead to good conditionality.[42]

5.52 Mr Hill outlined the Jubilee 2000 position, as it related to conditionality:

> One of the things that we have always said is that there need to be conditions which include resources flowing into poverty reduction, and good economic management should be part of that process.[43]

5.53 Ms Hunt elaborated further, and suggested that this good economic management and monitoring of conditionality could be performed by NGOs.

> It is reasonably well accepted now that one way of having checks and balances and accountability of governments is to have a healthy, strong civil society that can hold governments to account. If you make the conditionality transparent and, if you give some support to civil society and strengthen its ability to monitor, you have a much better chance of making that conditionality work than we had in the earlier years when these things were not happening.[44]

5.54 The Committee believes that good policies that will lead to broad based and equitably distributed growth are a necessary component of any long term reduction in poverty. It is preferable that developing countries change from within, however, many of these nations do not have the

41 Duncan, Transcript, pp. 32-33.

42 Hughes, Transcript, p. 32.

43 Hill, Transcript, p. 48.

44 Hunt, Transcript, p. 78.

institutional experience to put these policies in place themselves. The development of an inclusive, transparent and accountable set of conditions for debt forgiveness will enhance the effectiveness of conditionality. However, only those countries with a long term commitment to good policies and institutions will improve the wellbeing of its people. Debt forgiveness through the HIPC initiative is one of the incentives towards this ongoing goal.

5.55 While debt forgiveness should not include excessively stringent conditions that will deny essential services to those who require them, the Committee believes that it is essential to the integrity of the exercise that debt forgiveness only occur where there can be assurance that the money will not be used for military expenditure or corrupt purposes. This form of conditionality may include methods similar to those in the HIPC initiative, such as delivering a final portion of debt relief subject to the successful implementation of good policies. It may include alternative forms of conditionality by qualifying debt forgiveness to ensure that the monies released are spent on projects that will alleviate poverty.

Recommendation 6

The Committee recommends that the Government negotiate a form of conditionality which will prevent the expenditure of funds, freed by debt forgiveness, on military equipment or corrupt practices.

Debt concordat

> Conditionality has to change to be people friendly and to be aggressively opposed to corruption, to military spending, to subsidies to the elites. This means that we have to have fiscal systems that do not steal from the education budget; that do not steal from the health budget; that do not steal from clean water, which is what they are currently doing.[45]

5.56 Too often, development assistance is spent without tangible results in the lives of people it was meant to benefit. Despite the money lent or granted, the development of most of the HIPC countries remains poor. The HIPC

45 Remenyi, Transcript, p. 31.

initiative will provide some countries with access to additional resources for their social and economic development. How these additional resources are used to improve the standard of living of HIPCs should be able to be measured against a series of benchmarks.

5.57 The Organisation for Economic Development and Cooperation, World Bank and United Nations have developed a series of multidimensional International Development Goals (IDGs) that organise various United Nations declarations into a number of internationally agreed targets for the year 2015 (relative to 1990). For example, these include:

- reducing the incidence of extreme poverty by half;
- reducing infant and child mortality by two-thirds;
- achieving universal enrolment in primary education;
- eliminating gender disparity in education (by 2005).[46]

5.58 Mr Hewett warned the seminar that these IDGs would only be met by a handful of HIPCs, reflecting the fact that the situation for most people in these countries had not significantly improved, and was not likely to in the near future.[47]

5.59 Providing aid to developing countries carries other unintended consequences, and one of these is the issue of fungibility. When a donor nation agrees to put additional resources into existing projects within a developing nation, that developing nation is then more able to shift funds it would have otherwise spent into other areas. These other areas may be unacceptable to the donor nation, such as tax relief for elites or additional military expenditure. To counter the problem of fungibility in relation to additional funds made available from debt forgiveness, 'fencing' existing social expenditure may assist in preventing it from being diverted to other sectors of the economy.

5.60 For example, in Uganda, a Poverty Action Fund (PAF) was created to use money from the HIPC initiative in health and education, in addition to funds already allocated by the central government.[48] The PAF is separate from the Ugandan Government's consolidated budget fund. It contains funds from the HIPC process, along with contributions from bilateral

46 International Monetary Fund, 'Heavily Indebted Poor Countries (HIPC) Initiative - Strengthening the Link Between Debt Relief and Poverty Reduction', 26 August 1999, http://www.imf.org/external/np/hipc/0899/link.pdf, 19 October 1999.

47 Hewett, Transcript, p. 67.

48 International Monetary Fund, 'Heavily Indebted Poor Countries (HIPC) Initiative - Strengthening the Link Between Debt Relief and Poverty Reduction', 26 August 1999, http://www.imf.org/external/np/hipc/0899/link.pdf, 19 October 1999.

donors and is supplemented by funds from the Ugandan Government's own budget. The PAF is then used to improve social infrastructure, such as the construction of new classrooms to boost primary education, the provision of health care. The Ugandan Government has elected to use all the funds it receives from the HIPC process towards the PAF.[49]

5.61 Mr Hewett endorsed the Ugandan approach, and suggested that a 'debt for development plan' could be applied to other HIPCs. This approach to conditionality was based on development factors:

> To reach this point, countries will be required to meet just one condition: a demonstrable capacity to absorb debt relief into the national poverty reduction strategy. Some countries could proceed immediately to the completion point; others with less well-developed poverty reduction strategies would benefit from interim debt relief flows, which would substantially reduce the costs of delayed progress.[50]

5.62 The Jubilee 2000 proposal for a debt concordat would include the appointment of a debt review body under the direction of the United Nations to arbitrate in disputes between creditors and debtor nations. Mr Hill presented Jubilee 2000's idea of a debt concordat as a more institutional mechanism for debt forgiveness, based on the responsibility that both debtors and creditors had in creating the debt crisis:

> In this concept of a debt concordat or an arbitration mechanism, one of the essential assumptions that the NGO community has taken on board and argued strongly for is the culpable and authoritarian nature of the relationship between the IMF and debtors. That is why we have strongly argued the case for transparency and independence as a very important process for changing that balance.[51]

5.63 The Committee believes that a more restrictive concordat would have the potential to harm developing countries. For example, the Jubilee 2000 proposal includes the possibility of penalising poor nations by removing Official Development Assistance (ODA) if they default on their obligations under the concordat.[52]

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49 *ibid*.

50 Hewett, Transcript, p. 71.

51 Hill, Transcript, p. 48.

52 Jubilee 2000 Coalition, 'Concordats for Debt Cancellation', 30 March 1999, http://www.jubilee2000uk.org/features/concordats.html, 19 October 1999.

5.64 It is still too early to know if there will be substantial reductions in poverty in Uganda because of the initiative. The problem of fungibility is a serious one, although a development trust separate from a HIPC's consolidated budget is one way of mitigating these problems. This process should include a poverty assessment with tangible and identifiable outcomes that are agreed with the HIPC prior to the decision point.

Senator A B Ferguson

Chairman