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JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

Friday, 27 August 1999

Members: Senator Ferguson *(Chair)*, Senators Bourne, Brownhill, Calvert, Chapman, Cook, Gibbs, Harradine, O'Brien, Payne, Quirke and Schacht and Ms Bailey, Mr Baird, Mr Brereton, Mr Gareth Evans, Mr Laurie Ferguson, Mr Hawker, Mr Hollis, Mr Jull, Mrs De-Anne Kelly, Mr Lieberman, Mr Martin, Mrs Moylan, Mr Nugent, Mr O'Keefe, Mr Price, Mr Prosser, Mr Pyne, Mr Snowdon, Dr Southcott and Mr Andrew Thomson

Senators and members in attendance: Senators Ferguson, Quirke and Schacht and Mr Hollis, Mr O'Keefe and Mr Price

Terms of reference for the inquiry:

> The aim of the seminar is to develop a better awareness by the committee, government and non-government organisations, academics and the wider community of the causes, nature and scope of debt in developing countries, and to suggest new approaches towards debt relief in those countries.

Committee met at 9.05 a.m.

PARTICIPANTS

ARIYO, Mr Christopher Adegboyega, Acting High Commissioner, Embassy of Nigeria

DUNCAN, Professor Ronald Charles, Executive Director, National Centre for Development Studies, Australian National University

HEWETT, Mr Andrew, Director, Public Policy and Outreach, Community Aid Abroad

HILL, Mr Grant, Australian Coordinator, Jubilee 2000 and TEAR Australia

HUGHES, Professor Helen, Centre of Independent Studies, Australian National University

HUNT, Ms Janet Eileen, Executive Director, Australian Council for Overseas Aid

INDER, Associate Professor Brett Andrew, Department of Econometrics and Business Statistics, Monash University

MUIR, Mr Ross Stewart, Director, Development Banks and International Environment Section, Australian Agency for International Development

NEWMAN, Archdeacon Philip John, Director, Anglicans Cooperating in Overseas Relief and Development

PEARL, Mr David Christopher, Manager, World Bank Unit, International Finance Division, Department of the Treasury

REMENYI, Professor Joe, Director, International and Community Development, Deakin University

SULLIVAN, the Hon. Kathy, Parliamentary Secretary to the Minister for Foreign Affairs

CHAIR—Good morning, ladies and gentlemen, and welcome to our seminar today. Can I say at the outset that this is one of a series of seminars that is held by the Joint Standing Committee on Foreign Affairs, Defence and Trade on issues of foreign policy, defence, trade and human rights. While the seminar format has some limitations, it does provide a venue for the discussion of ideas and debate on issues. Hopefully, everyone involved here will have gained information on the subject today and, hopefully, will have more information than when we commenced this morning.

A full *Hansard* transcript will be made of today's proceedings and it will be made available when that is finalised. The committee also proposes to prepare a short report on the seminar and table it in the parliament as soon as possible, thus providing a further opportunity for discussion on these issues.

The Joint Standing Committee on Foreign Affairs, Defence and Trade is represented here by a number of its members, and some members are still to come. The committee is pleased that some other members of parliament may be able to join us today, if not for all of the proceedings. And a special welcome is made to the many members of the diplomatic corps who are with us today.

In deciding to hold this seminar we hoped to develop a better awareness by the parliament, by the government, by non-government organisations, by academics and by the wider community of the causes, nature and scope of debt in developing countries and suggest perhaps some new approaches towards debt relief.

We are very fortunate to have a range of excellent speakers today. We are very grateful for their attendance and hard work in preparing their presentations. The committee would like the debate to be as wide ranging as possible. All should feel free to join in when we invite questions from the floor. This room imposes some limitations but we have the two microphones. They have been placed so that those seated further away are encouraged to join in the discussion by coming forward to those microphones.

Due to the tight time frame of the seminar I request that speakers keep their presentations to the time limits that have been set out in the program, which at this stage is 20 minutes or under. If anybody goes on longer I may have to ask them to stop their presentation because a number of us have to leave at the end of the day by a certain time and we cannot afford to run over time.

Could I also make an apology in advance. In about 20 minutes I have to go out for a few minutes to attend to an urgent matter in my Adelaide office and my deputy, Mr Colin Hollis, will chair the seminar for the period that I am not here. It will only be for a very short time. I do apologise in advance for that but sometimes issues crop up that you just cannot do anything about.

Ladies and gentlemen, I am very pleased to welcome here today the Hon. Kathy Sullivan, the Parliamentary Secretary to the Minister for Foreign Affairs. As parliamentary secretary, Mrs Sullivan has responsibility for AusAID, which is the government's overseas development aid agency. We are absolutely delighted, Kathy, that you have made yourself available this morning to provide the introduction to this very important seminar. So, ladies and gentlemen, would you please welcome the Hon. Kathy Sullivan.

Mrs SULLIVAN—I understand well that I have the option of a less formal presentation, but since I have a speech to read I will do so as it is going to be easier to manage from the rostrum. However, before I read my prepared script there is another subject I must address. This is not part of any script. There was an article in yesterday's *Financial Review* which contained some statements in relation to the Jubilee 2000 campaign which deeply disturbed me. Unfortunately, the item was not drawn to my attention until last night, so I have not had a chance to talk to the journalists concerned to see whether maybe they got it wrong. There is a statement in the article which says:

. . . more than 2,000 letters sent to Prime Minister John Howard and senior ministers. But the Federal Government has been tardy in responding, and the petition—

whatever that is—

has received no formal response from Howard.

It is my job to reply to letters on this subject written to the Prime Minister or ministers. To the best of my knowledge, every letter that has come into my office has been replied to on the day it was received, and the few exceptions to that would be if the staff member responsible for this did not happen to be in the office that day. We have done an assessment as close as we can of the number of letters responded to through my office and a very generous upper assessment would be 200, not 2,000. Nevertheless, I am very disturbed to read a statement like that in print in relation to government activity, particularly as it appears to reflect on the Prime Minister, because it is my job to make sure that that does not happen. If anybody can shed any light on that, my office would be very grateful to know about it so that we can do something about it.

To get back to the script which is to open this seminar, I thank the joint standing committee for the invitation to participate today. Unfortunately, I have to catch a plane not too many minutes from right now, so I will not be able to stay to hear the discussion but I will, of course, be fully briefed. There are AusAID people here today, and I look forward also to the committee's report to parliament.

Poor country debt is both a development and an economic issue. Increasingly, unsustainable debt has been recognised as a harsh constraint on poverty reduction and sustainable development. It is not a new problem. We are all aware of the debt crisis of the 1980s, which affected both the poorest countries in Africa and middle income countries in Latin America. Unfortunately, it is a problem which still affects many millions of the world's poorest people, and for many it has been growing.

I want to focus today on the 41 principally African countries known as heavily indebted poor countries—the nations most affected by the debt crisis. Total nominal external debt of these HIPCs has increased from approximately $US60 billion in 1980 to an estimated $US200 million today. The results are very much felt on the ground in Uganda, Mozambique, Bolivia and elsewhere in the developing world.

I should also say at the outset that there is another important side to the debt issue. Debt in itself is not bad; in fact, some debt has been important to the development of poor countries. International flows of capital are essential for all countries to grow. Moreover, because new loans are continually being taken out, there will never come a time when the slate is wiped clean. However, debt problems arise when countries are unable to pay interest and instalments without unacceptably compromising other important national development interests.

In the late 1990s the debt issue has attracted an extraordinary level of public interest. There has possibly been no other campaign on a development issue by civil society equal to it, partly as a result of the increasing use of new campaign technology such as the Internet, but mostly because of the passion people who care about the poor feel for this subject.

As I have said in countless answers to campaign letters over the past few months—that was written before I counted them—the Howard government acknowledges the motivation behind the Jubilee 2000 campaign and the widespread public support for debt relief. The devastating effects on very poor countries of unmanageable debt are well known. The priority now is to ensure that relief given is sustainable and not counterproductive. The Australian government, along with many others, believes that a key part of the solution to the debt problem and to achieving long-term sustainable growth, is the pursuit of sound economic and social policies. 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.

Our government has supported the development of suitable arrangements for debt relief for HIPCs, both financially and by encouraging the World Bank and IMF to continue progress with their HIPC initiative. This initiative announced in 1996 aims to reduce the debt of the world's poorest countries to sustainable levels subject to the pursuit of sound economic and social policies. We believe that is the most credible way to provide sustainable debt relief.

Unlike previous mechanisms, the HIPC initiative deals with debt in a comprehensive way by involving all creditors, including multilateral development institutions. The initiative has so far committed $US6.1 billion in nominal debt service relief. A total of 41 HIPCs, mostly African countries with low per capita incomes, has been identified for possible debt relief. Although many of you no doubt believe progress has been slow, real progress has been made. Debt relief has been committed for seven countries and many more are expected to have their relief packages in place by the year 2000.

I am sure most of you will welcome the present review of the HIPC initiative being undertaken by the IMF and the World Bank, with the aim of increasing the level of debt relief available to HIPCs. The review has been notable for the participation and influence of civil society, including groups such as Oxfam and the Jubilee 2000 Debt Coalition. Proposed modifications to the initiative, based in part on proposals by the G8 in Cologne last June, will be considered at the annual meeting of the World Bank and the IMF in late September.

The Australian government strongly supports the HIPC review process and will be an active participant in discussions leading up to and during these annual meetings. Australia supports in principle proposals to deepen, broaden and speed up debt relief. But our final position on changes to the initiative can only be determined as details on all aspects, including financing, become available. Besides financing, an important part of the review is the examination of ways to strengthen the link between debt relief and poverty reduction. I know that Oxfam and the Jubilee 2000 Debt Coalition both represented here today have made proposals in this area and their contributions have been welcomed.

One thing that must be remembered is that debt relief is not a substitute for the development of aid of the type provided by Australia directed specifically at areas such as primary health care, education, women and the environment. The President of the World Bank, James Wolfensohn, and the Archbishop of Canterbury, George Carey, recently wrote this in an article in the *Guardian*:

Debt relief must not replace development assistance. Poverty is related to many factors . . . We must address all of these causes within a comprehensive development strategy which combines debt reduction and aid.

I should point out that the ‘grant only’ nature of the Australian aid program avoids the problem of adding to the debt of heavily indebted poor countries. 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, 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.

The Australian government views debt relief in this holistic way. We help address the development needs of partner countries through both our aid program and active participation in multilateral frameworks to deal with debt relief, such as the Paris Club and the HIPC initiative. Australia is a strong supporter of these multilateral frameworks and encourages debt relief efforts to be undertaken within them. We have participated on a number of occasions in rescheduling the debt through the Paris Club—most recently in the case of Nicaragua—and contributed $30½ million to help fund IMF and World Bank participation in the HIPC initiative.

Our government has clearly demonstrated that it takes the debt issue seriously. We also acknowledge the worthy objectives of the Jubilee 2000 campaign and others supportive of debt relief and their success in highlighting this important matter. Mr Chairman, I congratulate the joint committee on its choice of topic today. I am certain that your discussion will be informative and productive.

CHAIR—Thank you very much, Kathy, for opening our seminar today and for fitting into your very busy schedule the time to be with us this morning.

I would like to welcome Mr Ross Muir. Ross is the Director of the Development Banks and International Environment Section of AusAID, and he is going to address this seminar this morning on the nature and the scope of developing nations’ debt.

Mr MUIR—Thank you, Senator Ferguson. What I would like to do today is give an overview on the nature and scope of developing country debt, and I would like to do that on three items. Firstly, I want to give you a bit of a picture of overall poor country debt focused on the heavily indebted poor countries, the HIPCs. Secondly, I want to say a little bit about the social dimension and aid. Finally, I want to say just a bit on debt relief, how far it is going at the moment, and also on the HIPC initiative. So I will talk about poor country debt first.

Overhead transparencies were then shown—

Mr MUIR—As the overhead says, developing country debt is about $US2 trillion at the moment, and a much smaller amount is unsustainable. Of most concern are the heavily indebted poor countries, the HIPCs. As Mrs Sullivan said before, not all developing country debt is bad, and I think we have to keep in mind all the time that, in fact, debt is in many cases very good for development because it allows countries to finance the infrastructure and increase in social welfare that they need in order to grow and prosper. Also, it is true that there is never really a time when the slate is wiped clean, because countries are always taking on new debt.

Let us focus in on the HIPCs. Nominal debt owed by the 41 HIPCs grew from about $US60 billion in 1980 to about $US200 billion at the moment. There is a complex web of reasons, but terms of trade losses are important—the sorts of commodities that they are exporting suffered badly in terms of prices over that period—as well as inappropriate borrowing and poor economic performance of the countries themselves. When I talk about inappropriate borrowing, that is inappropriate lending as well. There are really two sides to this equation, and we have to bear in mind that both lending and borrowing had some problems.

Let us just have a look at the HIPC countries. There are 41 of them, as you know. You probably will not be able to read the overhead, but I just put it up there because it really emphasises that the problem is Africa in particular. Something like 34 of the 41 are African countries, and you are looking at sub-Saharan Africa in particular, as well as being a main problem area for debt. There are a few countries in Asia, Laos, Myanmar and also Vietnam. There are also four countries in Central America that are heavily indebted but, to my mind, the big issue is Africa.

Let us take a look at long-term debt of developing countries and you will see on this graph—actually, this graph does not tell you very much, but we have a few more coming up that tell you more—that those purple lines are basically totally developing country debt, and the blue lines down the bottom represent the debt of the HIPCs. That is just in total nominal terms from 1990 to 1997, and you will see that total developing country debt is heading up towards $US2 trillion and for the HIPCs it is around the $US200 million mark.

But it does not give us a feel for the position of the HIPCs, just how important debt is or how much of a problem debt is for the HIPCs. So I think we really need to look at debt as a percentage of the total output of a country. If we look at the percentage of debt to GNP, we start to get a picture for the sort of problem that you have with the HIPCs. Of course, the HIPCs are represented by the blue line and that is an average for all 41 countries. There is quite a lot of variation there but you will see that the debt of the total developing country average is around 30 per cent of their GNP. With the HIPCs it is around 130 per cent. So that gives you a feel for the sort of burden that they face.

There is quite a lot of variation in that as well. Some countries are under 50 per cent. Uganda is an example of that. Some are well over 200 per cent in terms of debt to GNP, and that would take it off the chart there. Those countries over 200 per cent include Angola, Congo Republic, Guinea Bissau, Mozambique, Nicaragua. Those are heavily indebted countries. In fact, Sao Tome and Principe is 583 per cent.

What about the composition of debt—basically, who are the lenders? This gives you a picture from 1970. The white bit at the top is commercial private debt. It is not much really. In fact, what this tells you is that debt to the HIPCs is largely official debt—it is bilateral official and multilateral. In the case of many African countries, the multilateral debt—that is from the multilateral development banks in particular—is about 50 per cent of their debt profile.

Debt to export ratio: this is an important ratio because in the HIPC initiative, and in various other initiatives and discussion on debt, it is often used as an important indicator of debt. What you have here is the proportion of the total debt a country has to its annual exports. You have got an average there. The HIPCs, the blue lines there, average about 400 per cent over the 1990s. For all developing countries the figure would be about 150 per cent. Again, the HIPC average disguises all kinds of variation. Some countries are well above 1,000 per cent in terms of their average. Burundi, Guinea Bissau, Mozambique are examples of where you have a very high debt to export ratio. The other thing I should mention is that, under the HIPC initiative, the World Bank and the IMF regard a level of, at present, about 200 to 250 per cent as a sustainable debt level. Under the proposal put forward by the G7 and by other civil society groups, that level would come down to about 150 per cent.

Let us have a look at debt service to export ratios. This is the repayment of the debt compared to the exports annually—that is, the repayment amount compared to exports. The thing that I found interesting about this is that the HIPCs and all developing countries are not very different. At first I thought it was surprising. But when you think about it—and, remember, this is actual debt repaid—there are probably two reasons. Firstly, the HIPCs generally have a high amount of highly concessional finance, so the repayments are lower. Secondly, I think the situation is that, because the HIPCs are continually rescheduling, they are in fact not paying what they planned to pay, so all the planned amounts to pay are being pushed off into forward years and they are just paying what they can pay in the rescheduling process.

Let us go on to the second part that I wanted to cover—the social dimension. It is very important to remember that all these graphs and charts are basically talking about or implying something about the effects on people, the effects of debt on poverty reduction. Unsustainable debt is clearly a constraint on development and poverty alleviation. It discourages investment. It also makes it more difficult for education and health expenditure in the HIPCs. Other social indicators in the HIPCs tend to lag. Let us have a look at some of those. These are just some basic social indicators of the HIPCs compared with other low income and middle income developing countries. You can see that there is a significant difference in infant mortality, proportion of the population with safe water access, and life expectancy. It is even more significant when you realise that the low income category, which is in the middle there, also includes the HIPCs. So you have a picture of a social dimension that does not have a lot going for it and needs a lot of work in terms of development and poverty alleviation.

Aid flows to the HIPCs: they receive, on average, about twice as much external assistance in grants and concessional loans than they pay in debt servicing. I emphasise the ‘on average’ because, of course, it is different for individual situations. Also, annual net transfers to the HIPCs on medium- and long-term resource flows averaged about 10 per cent of GNP over the last five or six years. So net transfers to those countries were averaging about 10 per cent.

Let us have a look at how aid flows compare with debt service. That gives you an average picture, of course, for the HIPCs. You have got there the percentage of GNP in terms of aid flows. The average for the HIPCs is about 12 per cent, whereas the debt service would be about six per cent. Again, this covers lots of variation. Many HIPCs have aid flows that are more than 30 per cent of GNP—they include Guyana, Mozambique and Rwanda.

The third and final part is debt relief to date. Essentially, the HIPCs have received substantial relief over the past decade through traditional means: Paris Club debt relief, outright bilateral debt forgiveness—a fair bit of that happened in the late 1980s—and also discounted buybacks of commercial debt. In total, these operations have provided debt relief of about $25 billion from 1990 to 1996.

Let us go on and talk about the HIPC initiative, because this is a benchmark initiative which we start with when we are talking about debt relief. The World Bank launched the initiative in 1996 in response to the high debt levels. It involves multilateral, bilateral and commercial creditors; it attempts to be comprehensive. The aim of it is to lower debt burdens to sustainable levels, subject to policy performance. It basically seeks to ensure that good economic and social reforms are not put at risk by debt servicing.

To be eligible, a country has to be an IDA-only country. This means that it must receive its multilateral funding from the World Bank only from the bank's concessional arm, which is the International Development Association. The sorts of terms on loans that are provided through IDA are things like one per cent over 40 years.

It has to face unsustainable debt after application of the normal debt relief mechanisms and it has to demonstrate a track record. Those are the basic criteria for countries to enter into HIPC. In 1966, the World Bank, using those criteria, chose 41 countries.

Basically, this is the way the HIPC process works: the country involved pursues bank-IMF reforms for three years and receives traditional assistance—normally IDA and also bilateral aid. At that stage, at the end of three years, there is a decision point and the bank and the IMF do an analysis and formally make a commitment to assist or not to assist. Then there is a further period of good performance in which some additional assistance is advanced. At the moment that is a three-year period. Once that period has arrived, the country is eligible for up to an 80 per cent reduction in its bilateral and commercial debt and also a reduction in claims by multilaterals. That is the basic way in which the present HIPC scheme works.

Let us look at criticisms of the initiative. The campaign for debt cancellation by the year 2000 says that the initiative is too slow. They say that countries are not being given debt relief fast enough—they are not being assessed fast enough. They say that it sets unreasonably long performance periods and fails to establish a link between debt relief and poverty reduction.

At the moment there is a review of HIPC going on, as many people would know. That started in October and will hopefully end next month, at the annual meetings of the World Bank and the fund. There are two stages for that: one phase actually reviews the initiative framework and the debt sustainability ratios and the second phase reviews the debt relief poverty reduction link. In this process, the bank and the IMF consulted widely with NGOs and civil society groups and I think that has been quite a successful consultation.

With respect to timing of the review, bank and IMF staffs have largely completed the review process. Papers on modifications to the HIPC initiative are to be considered at the annual meetings of the World Bank and the IMF next month. These proposals are guided by the G8 decisions which were made several months ago.

Let us look quickly at the G8 decisions. G8 proposed in June to expand the initiative by lowering debt sustainability targets—they are looking at a target of 150 per cent; shortening performance periods—they are hoping to bring it down to three years rather than six years; more interim assistance; and increasing forgiveness within the Paris Club. They were looking at raising forgiveness from 80 per cent to 90 per cent. If this sort of format were to be adopted in the HIPC initiative, it would double the cost of the current initiative, which is about $13 billion, to $27 billion.

On a closing note, with respect to Australia's general position on debt, the Australian government supports the HIPC initiative as the most credible to achieve debt sustainability and it also supports the HIPC review. Australia is definitely a supporter of multilateral debt relief frameworks, such as in the World Bank and the IMF, and in the Paris Club in particular. The reason why we are is that we think that public, transparent debt relief discussions are really the way to go and they are the way to lock lenders and borrowers into good outcomes.

As Mrs Sullivan mentioned before, Australia has contributed $30.5 million to help fund the HIPC initiative. I think it is important to note here that that contribution was separate from the aid budget—it did not come out of the aid budget.

ACTING CHAIR (Mr Hollis)—Thank you very much, Ross. I have great pleasure in calling on Ms Janet Hunt from the Australian Council for Overseas Aid. Her paper, 'Debt reduction in the context of globalisation', will explore some of the ways in which the process of globalisation may affect the world debt.

Ms HUNT—Let me start by reminding everyone that this is actually the second inquiry by a committee of this nature—one was by an earlier committee—into the debt crisis. At the time of the previous one in 1989, your committee's report opened with a quote from UNICEF's 1989 *State of the world's children report.* It said this:

> For one sixth of mankind, the march of human progress has become a retreat. At least half a million children have died in the past twelve months as a result of the debt crisis and recession.

The sad fact is that, 10 years on, the record shows that things have only got worse—much worse. In 1997, UNICEF estimated that if the $13 billion per year then being spent on debt repayments were invested in human development, 21 million children's lives could have been saved by the year 2000.

The fact that this situation endures is one of the most massive human rights violations of the decade. My task is to set this crisis within the context of the current processes of globalisation, and I do sincerely hope that the recommendations arising from today's meeting will have a greater chance of implementation than those of the last inquiry, because we are literally talking about life and death issues. Globalisation is not a new phenomenon; it is a process of deepening economic and technological integration between countries. It is the speed of this process at present which makes it very significant.

Overhead transparencies were then shown—

Ms HUNT—The four characteristics of the new globalisation are: new markets, particularly the foreign exchange and capital markets, which are now linked globally 24 hours a day; new technologies—and I would highlight here the Internet in particular; new actors—the World Trade Organisation, multinational corporations and global networks of NGOs; and new rules—new rules about trade, services and intellectual property, and possibly new rules in the future on investment.

As Ross said, most of the highly indebted poor countries are in Africa—33 out of 41. Many are categorised also as least developed countries. In examining the links between globalisation and debt, I will be relying on such relationships, as the data I want to use is not readily available for the specific groups of HIPCs as a category.

The attached table shows these relationships well. In the left-hand column, I have put a star for every African country; in the middle column there is a star for every least developed country; and in the end column there is a star for each country which the UNDP classifies as with low human development. I am using there the longer list—the list of 52 countries that the Jubilee 2000 group believes should have debts written off. I have indicated, against their name on the left, those that are outside the HIPC framework at present. You will see that 80 per cent of the HIPCs are in UNDP's category of low human development.

In recognising these relationships, it is important to note that a country like Nicaragua, which is neither African nor a least developed country—that is, it is a better off country than many listed here—has two out of five children malnourished and half the population living below the poverty line. Its debt repayments are 2½ times its spending on health and education combined, and more than half the government's revenue.

I now want to turn to the key features of globalisation and how they are impacting on least developed countries and Africa, particularly sub-Saharan Africa. My argument is simple: the poorest deeply indebted countries stand, unfortunately, to be further marginalised by globalisation. Debt reduction offers a glimmer of hope for a continent which, as Kofi Annan said recently, 'The world seems to be abandoning.'

Let us look at new markets. The two key aspects are foreign exchange markets and foreign direct investment. With regard to foreign exchange markets, each week daily turnover outstrips the value of annual world trade flows. These markets are huge, but they bypass the group of highly indebted poor countries. However, global impacts of these phenomena can still impact on Africa. The Asian financial crisis, for example, which resulted from a massive loss of foreign exchange from four key countries, led to a 40 per cent drop in copper sales from Zambia in 1998. This led to a rapid rise in inflation in that country from 18.6 per cent in 1997 to 30.6 per cent in 1998.

With regard to foreign direct investment, more than 80 per cent of foreign direct investment in developing and transitional economies has gone to just 20 countries and, in fact, much of it to one—to China. Foreign direct investment to sub-Saharan Africa in 1994—it is the latest year I have figures for—was $1.8 billion. It was the equivalent of FDI flows to New Zealand. In other words, to all the countries of Africa the flows were the same as to New Zealand—minuscule, particularly when you realise that much of that, in effect, goes to South Africa and Nigeria, not to the poorest HIPCs.

Let us move on to new technologies then. Anyone who has tried to place a telephone call to Tanzania or Mozambique will attest to the fact that old technologies are still not working effectively in many African countries, let alone the new ones. This is especially true if you want to contact somebody in a rural or remote area, as aid organisations often do.

The Economic Commission for Africa has realised that African countries are losing out by the lack of information technology on the continent. In 1995 it appointed a group of experts in information technologies to draft an action framework to build Africa's superhighway. African leaders are very concerned at the growing cost to Africa of remaining outside these new technological developments.

The goal of the Africa Information Society initiative is the attainment of a sustainable information society in the year 2010 through a number of actions by African countries, among them development of national plans, using IT in the public sector, eliminating regulatory barriers affecting the use of IT and facilitating the establishment of locally based, low-cost Internet services. Despite these initiatives and some development cooperation support in this area, particularly from Canada, the poorer African countries lag well behind other developing countries in low-cost access to these technologies.

Let us move to the third characteristic of globalisation—new actors. The World Trade Organisation is probably the most significant global actor relevant to our discussions today. Multinational companies are the other, but we have already seen that most very poor HIPCs have little foreign investment, so the multinationals are less relevant to this discussion. The World Trade Organisation is setting the new rules of trade liberalisation. There is a growing body of literature which suggests that liberalisation may not always produce favourable results for developing countries. Any moves for greater trade liberalisation should be undertaken with great care and with adequate safety nets for those likely to be adversely affected.

So where are our HIPCs in the world trade scene? Forty-eight least developed countries now account for less than 0.3 per cent of world trade—half the level of two decades ago. Yet for many countries trade has become a more significant contributor to GDP in the last 20 years. You can see from that that for nearly all the countries listed there from a range of continents, the proportion of trade as a percentage of GDP has increased over 25 years from 1970 to 1995. But, interestingly, Zambia is one of the few countries in that table where trade, as a percentage of GDP, has actually dropped.

Africa's trade to GDP ratio is low and is falling fastest. Most studies suggest that the poorest countries will lose from the Uruguay Round agreement, with EU preferences for ACP countries eroded by 30 per cent or by 50 per cent for tropical products.

In the case of manufacturing trade, sub-Saharan Africa's share of global trade in 1970 of 0.6 per cent has been halved. Interestingly sub-Saharan Africa actually has a higher export to GDP ratio than Latin America, but Africa's exports are in primary commodities, and foreign direct investment is concentrated in mineral extraction.

So their trade integration—and they are integrated into the world trade arena—is actually a vulnerability to the whims of primary commodity markets, where they are price takers. Nearly a quarter of African countries rely on a single commodity for half their export income, and over 20 countries rely on only two or three primary commodities for half their export income. One study of the effect of export instability on economic growth in 34 African countries found that, even after allowing for other variables, export instability had a significant negative effect on economic growth, and that was due to price fluctuations in their primary commodities.

The poorest countries are barely represented at the World Trade Organisation negotiating table, and agreements of the pre-World Trade Organisation Uruguay Round meant to benefit developing countries in areas such as agriculture and textiles and clothing have not been fully implemented by developed countries. Further, Africa is the one region which has no regional body like Mercosur, NAFTA or APEC that is actively developing trade agreements for the region. There is a danger that the world's poorest region will be excluded from trade and investment processes underpinning global economic prosperity in the 21st century.

Finally, the most significant of the new rules are the new multilateral agreements in areas such as services, intellectual property and communications. The key issue here is that the poorest countries are largely powerless in negotiations about these new rules. They simply do not have the resources to place people for long periods in the numbers required in Geneva or in other centres to be there, to know what is going on and to advocate their views. They are unlikely to have much say in how these rules are developed, and so it is certainly not clear that they are going to benefit significantly from them.

In conclusion, the HIPCs are not likely to be the beneficiaries of globalisation. Indeed they are becoming more marginal and more vulnerable. The processes of globalisation are concentrating investment resources in the strongest economies with the best information technology access, and trade liberalisation does not offer good prospects for highly indebted poor countries.

Africa's declining share of world markets has cost it the equivalent of $60 billion a year in current dollar terms over the past 15 years—about three times the flow of official development assistance received by African governments. And even where globalisation creates growth, poverty alleviation will follow only if there are adequate redistributive reforms and policies which are pro poor. George Soros states:

> We can have a market economy but we cannot have a market society. In addition to markets, society needs institutions to serve such social goals as political freedom and social justice. There are such institutions in individual countries but not in the global society.

The main global institution striving for some economic justice, I would guess, is development cooperation. But development cooperation globally is also falling. For many of the poorest countries, as trade income drops so does aid income. Global aid to least developed countries fell in 1996 to its lowest level since 1989, representing less than a quarter of the declining global development assistance funds. In 1994 development assistance to Africa was $18.9 billion. By 1996 it had fallen by 18 per cent. Australian development assistance to Africa has also declined, from $111 million in 1994-95 to $69.3 million in 1998-99. That is a 38 per cent reduction.

We do have international financial institutions which can address debt reduction, and the cost of debt reduction is not great in global terms. Oxfam International estimates the cost of debt reduction for HIPC countries to be $45 billion—that is, for HIPC relief on Naples Terms. This is equivalent to what Europe annually provides as subsidies to its farming communities. It is five years of global spending on pet food, it is less than six per cent of annual global military spending and it is three years of global aid to Africa. It is certainly a drop in the ocean compared with annual global exports of $4.8 trillion or annual foreign exchange transaction of $325 trillion.

Debt reduction, it seems to me, is the key circuit-breaker for these very vulnerable poor countries. It is crucial that it happens. It is also crucial that it does not come from existing aid funds and that it be linked to social development and poverty reduction. Otherwise, the public constituency to support it will evaporate and the OECD DAC goals of halving world poverty and achieving a range of social improvements by the year 2015 will disappear over the horizon. Thank you.

ACTING CHAIR—Thank you very much, Janet. We have roughly 20 minutes for questions, so I now invite questions from the floor. Who would like to lead off with a question?

Mr WALKER—I am from World Vision Australia, and I have a couple of questions. One is for the Hon. Kathy Sullivan.

ACTING CHAIR—Unfortunately, she is not here, but we can take the question on notice.

Mr WALKER—Yes, perhaps it could be taken on notice. In her talk she mentioned that the government has a strong focus on governance and that this is contributing to debt management. My question is: in what specific ways is government’s focus on strong governance contributing to debt management? In her talk she also stated that the government has demonstrated that it takes debt issues seriously. Given that a number of governments have been providing leadership in different ways in international fora on debt relief, what specific policy initiatives has the government provided or offered in the last 18 months to demonstrate this support? May I ask a third question?

ACTING CHAIR—Yes. With regard to the questions to Mrs Sullivan, when I look around I see that all the members of parliament here are from the opposition. I do not think I see a government member, and it would not be appropriate for us to respond.

Senator SCHACHT—Hang on!

ACTING CHAIR—If there are specific questions for Mrs Sullivan, we will take them on notice.

Mr WALKER—That is fine.

ACTING CHAIR—Can we have your next question?

Mr WALKER—I have a question for Mr Ross Muir. Ross, you mentioned that the government supports the HIPC review. I understand that all governments were invited to make submissions to the review of the HIPC initiative. Did the government make a submission; and, if not, why not?

Mr MUIR—Australia does support the HIPC review, as I mentioned. A lot of discussion on the review has gone on in the boards of the IMF and the World Bank, and Australia is represented on those boards. Australia played a part in the process from October onwards and, in terms of the development of the HIPC review and discussion that has gone on, the Australian executive director, instructed by Treasury, has participated fully in those discussions.

You mentioned that an Australian submission was requested. I am not sure what you mean by that. There has been lots of Australian briefing that has gone to the bank and the IMF. Yes, there has certainly been a strong Australian input into this.

Senator SCHACHT—Was there actually a submission, prepared by Treasury on behalf of the Australian government, lodged in that review?

Mr MUIR—That is a question for Treasury to answer.

Mr PEARL—I am not aware of that. As Ross said, we provide regular briefing to our representatives on the executive boards of the IMF and the World Bank. We have responded to the review papers as they have come up.

Senator SCHACHT—Mr Pearl, in my list you are down as Manager, World Bank and APEC Finance Minister’s Unit, Department of Treasury. Did the Treasury lodge an official submission to the review?

Mr PEARL—I am not aware of an official submission. We did provide comments.

Senator SCHACHT—We did not lodge a submission?

Mr PEARL—I would have to check. I am not aware of that.

Senator SCHACHT—But hang on, you are the head of the unit. Surely the submission would have come from your unit.

Mr PEARL—I am relatively new to the area, Senator Schacht. I would have to check back on that.

Senator SCHACHT—Mr Chairman, this goes right back to the recommendations of the report in 1989 that Janet Hunt mentioned. I was a member of that committee. I may be the only surviving member of the parliament who was on that committee and is here today. The committee made significant recommendations about the fact that our representatives on the IMF, the World Bank and other development agencies such as the Asian Development Bank should not be left in the hands of Treasury. It was recommended that the responsibility should be transferred to the Department of Foreign Affairs and Trade. We also made recommendations that it would be useful if people appointed to represent us in those agencies actually had a development aid background rather than a Treasury background. I think that since that recommendation, instead of that being an in-house Treasury job, self-selected from within Treasury, we did actually get it opened up to call for applications. But since then—I stand to be corrected on this—the only appointment in 10 years, other than a Treasury appointment, has been Peter McCawley, a deputy director of what is now AusAID. I do not know whether I am wrong on this.

Prof. HUGHES—Chair, could I contribute?

Senator SCHACHT—I know Professor Hughes is going to contribute, because I think she applied for one of these jobs and was told by Treasury, 'Because you are not a permanent public servant, you are not eligible to apply'—which I find an astonishing attitude to take. But this is the point I want to raise. It is no use coming here discussing what our policy is when the representatives of the government are not aware of whether we put a report in or not and the response is, 'I've only been in the job a short time.'

Prof. HUGHES—I just want to say that is a long and dirty history. I was on the original committee recommending that it be opened up. Yes, indeed, I was told by Treasury that since I was not a public servant I could not apply. I was actually interviewed but I was not considered.

I think the answer is that the joint committee should look at the bureaucratic coordination within Canberra between Foreign, PM&C, Treasury and AusAID on these issues. They could at the very least have a meeting and decide what to do, and then they might carry out proper procedures in appointing people to these jobs. In recent times, I understand, people who are not even knowledgeable about aid have been appointed to those jobs. Why don't you put it in the framework of consultation among the bureaucrats?

Senator SCHACHT—I just want to make one further point. Some of us have been consistently raising this at Senate estimates committees over the last 10 years. When these issues came up about representation, we go to the Treasury estimates to ask questions. Again the same sort of answer is given. For example, Treasury does not accept that the World Bank is a development agency. That view only recently changed marginally in Treasury, which saw it as a bank, whereas a former President of the World Bank who visited Australia in the early 1980s openly told this committee that he saw the bank as a development agency. Treasury has never seen it as a development agency but as some variation of an international bank. That is why it appoints people accordingly.

ACTING CHAIR—Are there any further questions?

Mr McCRAE—I am Alexander McCrae, from the Jubilee 2000 coalition. Mr Ross Muir, you said that the $30.5 million that Australia provided for HIPC was not redirected from elsewhere in the aid budget. But I understand from Jubilee 2000 literature that it was directed from elsewhere in the aid budget. I do not know if, Grant and Ross, you could comment on that to clarify where that $30.5 million came from.

Mr MUIR—It was definitely not out of the aid budget, Alexander. It came from off budget funds which Treasury had in trust with the World Bank and the International Monetary Fund.

Ms HUNT—There may be some confusion because there is debt relief provided in the aid budget to Egypt, I understand, and that does come out of the aid budget. That is not a HIPC, of course. That resulted from an agreement at the end of the Gulf War. So we are providing debt relief under the aid budget, but it is to Egypt.

Mr MUIR—That is right. That was something that was agreed a long time ago, Janet, as you know—in about the late 1980s, I think.

Ms HUNT—It was after the Gulf War.

Mr MUIR—There was certainly a lot of discussion before that about that particular debt. But in terms of the HIPC, the Australian funds for the Australian trust fund are additional to the aid budget so far. The $30.5 million has not come from the aid budget.

Mr HILL—Could I just clarify: Jubilee 2000 is now public material and today is calling for development assistance not to be diverted to debt relief funding. It should be on top of that. As far as I am aware, in our official publications in terms of our newsletters and stuff we have at no stage said that the $30.5 million was coming out of the aid budget, because it was our understanding that it was not.

Prof. REMENYI—I would like to follow up on Senator Schacht's questions, to ask that the joint committee ask AusAID and Treasury to release the positions that were taken by our representatives on the boards of the World Bank, the IMF and the other participants in the HIPC review, so that we know what positions have been taken by Australia and that these can be subject to review, not only by this committee but by interested members of the Australian public.

ACTING CHAIR—We will put that to the committee in the form of a resolution at our meeting next Wednesday, and that will also be part of these proceedings, but rather than waiting until we table the report of this seminar—and I note that at least half a dozen of my colleagues from the joint committee are here—I will talk to the chairman about it during the break and I am sure that we will put that as a formal resolution to the committee at our meeting next Wednesday morning.

Prof. REMENYI—Thank you.

ACTING CHAIR—Are there any further questions?

Mrs PRICE—I am Lurline Price from the United Nations Association. I would like to direct a question to Janet Hunt, if I may, in regard to her address. I understood Janet to say that the World Trade Organisation is setting new rules, yet the poorest countries are barely represented in the WTO and therefore, it seems, may be excluded in future discussions. We are all aware that the Multilateral Agreement on Investments is possibly still on the agenda for the next WTO. I want to ask Janet what effect she feels that this, if adopted by the Trade Organisation, may have on the economies of the poorest countries.

Ms HUNT—Thank you, Lurline. The Millennium Round is certainly considering extending its brief to that area of investment. I really could not say. Given that foreign investment in many of the HIPCs is so low, I guess, at this stage, it is hard to see precisely how changing the rules is going to make a huge difference to those countries in the short term. But in the longer term it would mean that, as they did become a little more attractive to investors, they would have little control over the terms on which that investment takes place. If they want to protect fledgling local business initiatives, they would have very little ability to do so. That would be the issue for them, but I think at the moment they are not particularly attractive investment options, and that is part of the problem.

ACTING CHAIR—We can take one more very quick question, if anyone has a quick question to ask. If not, we will break for morning tea. At this stage may I thank the two speakers for their presentations this morning and for answering questions.

Proceedings suspended from 10.13 a.m. to 10.35 a.m.

CHAIR—I apologise for having to leave for half an hour and I understand from Mr Hollis that there were some questions asked which related to government policy. It is not our role in this forum to respond to questions of government policy but in fact those questions will be passed on and an appropriate response will be sought from the responsible ministers concerned. Please feel free to ask those questions, but you cannot expect responses on the government's policy to be answered at a forum such as this today.

It is my pleasure to welcome Emeritus Professor Helen Hughes from the Australian National University. We are very grateful that Professor Hughes has agreed to speak to the seminar today. She has a wealth of experience in the field, which includes a period of service at the World Bank of some 15 years. Her paper today, 'Should the heavily indebted poor countries' debt be forgiven', I understand will focus on some of the possible hazards involved in granting debt relief. A copy of what she is about to say has been distributed to all of you.

Prof. HUGHES—I have asked for the paper to be distributed because on page 8 there is a table that complements the tables that have been shown by AusAID and that will no doubt be shown by Treasury. I am afraid, as I am just a poor old retired lady, I do not have a staff of thousands to prepare nice charts. I do not want to take other people's time, so I assure you I will not run over time.

CHAIR—That table does not seem to have been circulated, but we will get it photocopied and make sure that people have a copy to keep.

Prof. HUGHES—The reason I have included this table—and I hope you will get it—is that it complements Ross's information and other information. What it tells you is that the 40 HIPCs have not got high debt. What they have is economies that have been extremely badly managed so that their fiscal resources are negligible and their exports are negligible. They have not been the victims of globalisation. They have not taken part in international trade because they have not wanted to. I am astonished at Janet saying they have not got any foreign investment. I think that is a good thing. You do not want too much foreign investment or it would take over the farm. They have not got foreign investment because they are so egregiously badly managed.

In the last column of my table, you may be able to see that about half the figures are negative growth. These countries have dissipated what wealth they had—they have gone backwards—and it is for that reason that they are in a debt crisis. Their debt to population is lower in many cases than in countries which are doing quite well. So do not think that they are debt victims. They are the victims of gross economic mismanagement.

Half of the countries on that list have chosen to exploit their populations egregiously—more than half. Most of the leaders of the countries on the list have stolen resources. They have appropriated resources to the elites that run them—changing elites, but elites. They are rapacious at times. There was Idi Amin in Uganda. We are going to forgive those debts. They were vicious. They are now killing their populations and they are killing their neighbours. Look at Ethiopia and Eritrea. It is not a debt problem; it is a serious government management problem. There is not a country there that has changed its government that has stopped. There has been no poverty alleviation in those countries. There is no attention to education. There is no attention to health. Look at countries like India, where poverty has fallen from something over 50 per cent of the population to 30 per cent or 25 per cent. Look at Indonesia, where, in spite of the recession and its terrible effects, poverty has fallen. Look at countries like Korea, which were poorer than these African countries, which have no serious poverty.

The whole forgiveness attempt ignores the principal issues. All the bureaucratic talk I have heard so far totally ignores what has happened to the money. Who has told us what has happened to the money? I can tell you what has happened to the money. It has been spent on bombers, tanks, machine guns and much more complex armaments to shoot people. That is where the money has gone. Funds are fungible; if you get $100 million, $50 million or $25 million from the World Bank, you can either spend it on education or you can spend it on armaments. I assure you that, as a very senior member of the bank's staff—at one stage, I was the first woman senior member of the World Bank staff; I had one of the largest departments of the World Bank—I have worked through this issue by issue. The question is: what has happened to that money, and why are their debts to export ratios so terrible? It is nothing to do with the debt. All the money for all those countries has been wasted.

I want to concentrate on why I think that debt should not be forgiven. I think this is a moral issue. Firstly, arguing for forgiveness is the last gasp of paternalism and colonialism. We are going to do good to countries like Ethiopia, where people are starving because of the government policies, and Vietnam, which refuses to improve its policies. We are going to do good to those people—we know best! It is the last gasp. I think the whole Jubilee 2000 effort is a thoroughly paternalistic and colonial effort, and forgiveness is a moral issue.

There are lots of Christians—but perhaps no other religionists—in this room. Every religion I know, eastern and western, makes an act of contrition an important part of the forgiveness process. You cannot be forgiven in any religion I know unless, to some extent, you say, ‘I am sorry.’ And the way of saying ‘I am sorry’ in this area is to repudiate debt—to say, ‘We are changing. We are going to have new policies and new government and, in order to have a level playing field, we are going to repudiate the debt that was spent on oppressing our poor and on bombing our neighbours, et cetera’.

There is actually one country which might well do that if it is allowed to by the Fund and the Bank—and I will come back to that later—and that is Uganda. So I think forgiveness is totally immoral, and I think those pursuing it have no humanitarian or religious concept of what forgiveness is about.

There are practical reasons against forgiveness. If you forgive the countries on this list their debt service, there is no proposal that the multilateral debt be forgiven. If you give them the debt service, they are going to say, ‘Terrific. Do you know that house I ordered to be built? You can now go ahead and build it, because we will have money; we will get a fresh loan.’ The poor are not going to get a sausage of this. It will all go to the elites because there is no indication that the governments are changing policy.

Secondly, they will be able to borrow more. There will be nothing for the poor. Who is going to pay for these new loans? Ah, we do need the poor to pay for the loans—because who is paying for the current loans? Do you know anything about the tax systems of the countries we are talking about? The rich do not pay a penny of taxes. It is not too different in other countries I know. But, in Australia, at least the middle class has to contribute. We are trying to get a fair and equitable tax system, but there is nothing like that. Most taxation in those countries is the same as in Liberia, where the tax collector always went out with a soldier, and the innocent NGO people said, ‘Oh, is there such great unrest?’ And the Liberian said to us, ‘No, no there is no unrest, but they have got to beat the farmer up to get the money out of him.’

That is the taxation you are talking about. These are the people who are going to pay for the existing debt under the HIPC Initiative—which I will get on to later—and who are going to pay. All the fat cats are going to get fatter, but not the poor people who have had nothing for 40 years or more and whose economies are going backwards.

The third reason, of course, is that it shifts aid to those corrupt and rapacious governments from relatively good governments. There is a fixed amount of aid—don’t let’s discuss that. Aid levels are going down, if anything. On one particular thing you may not get a shift; but for aid as a whole, anything that goes to debt relief is going to go out of other aid budgets. And that means, particularly for Australia, we are going to have less money for East Timor because we are rescuing African countries where the governments are so bad.

The next reason is that by forgiving debt, as distinct from repudiating it, you are raising the cost of borrowing for all developing countries, including those well-managed ones. So why do that? Again, you are hurting the Indias, the countries which are really trying to change, in favour of the countries that have no intention of changing. This is why I think forgiving debt in the present circumstances is a totally immoral exercise. The morality has not been thought about, both in philosophical terms and in practical terms. The only way to go is that if countries want to do something about their debt they can repudiate it and they will be taken seriously.

I want to say something about the HIPC Initiative. You have had the bureaucratic view, and I am not blaming the bureaucrats who have presented it—they have got to toe the line, right. But the HIPC Initiative has been described in a number of London newspapers, in the *Neve Zuricher Zeitung* and other newspapers, and in the United States as an attempt to reshuffle debt. None of the debt will be forgiven—it will stay on the books. But the Bank and the Fund will get money out of their special accounts, out of their profits. So, again, there is a shift of money towards the least deserving countries.

Botswana is not going to get any money. Botswana is the same as all these other countries and it is not going to get any money, but its neighbours are because they are corrupt and incompetent. Botswana and Mauritius are two African countries that have taken advantage of globalisation, shall we say, Janet, and they have done extremely well. They are both rapidly growing countries. They have got the same problems as all the countries around them, Botswana particularly. But money is going to be taken from them to be given to the dictators that are shooting their people. Look at Ethiopia. People are starving because the government is mercilessly exploiting them while building up accounts in Europe and in America. That is what you want to do! I cannot understand the morality of the issue.

The HIPC is a very clever Initiative. It was initiated by the World Bank and the International Monetary Fund staff, and it is a very necessary Initiative for them. They have managed in 40 years to contribute nothing to the growth of those countries. I used to work on Liberia. We contributed nothing to the improvement in policy in Liberia but we lent to them year after year. And every year we wrote a report—and you will find this in the Bank and the Fund reports—saying, ‘Well, they have not done quite as well as we expected but they have promised to do better next year.’

The reports on Africa, on the HIPC countries, would fill this room. And if you read every page you would find the most deplorable weasel wording that enabled the International Monetary Fund and the World Bank to get to the situation they are in now, but they are borrowed up. Everybody says, ‘The debt is very serious.’ And since they have not raised their incomes, they have not raised their revenues and they have not raised their exports, the debt figures that Ross read out are quite terrifying, aren’t they? But they are not for Botswana—it is doing okay. Botswana has borrowed and it is doing okay.

The Fund and the Bank painted themselves into a corner on these HIPCs and a lot of other countries as well. What if the HIPCs really reneged on their debt, repudiated their debt and said, ‘Right, we’re going to repudiate the debt and we’ll be very selective about future borrowing, future aid—we’ll take aid from countries like Australia which give all grant aid’? We do not give any loan aid. We should not be in this discussion at all. It is ridiculous for Australia to be concerned in these discussions. I think it is mainly because our bureaucrats like nice trips to Paris and London and Washington. Nobody owes Australia anything. We have had a policy which countries like Japan, notoriously, and the US have ignored. The 46 per cent of debt owed bilaterally by countries is mainly Japan, US, France and Germany. What are we doing rescuing them? They can write it off, they need not write it off—they can do whatever they like. Canada has written its debt off; they said, ‘Forget all that,’ and they have written off all their debt in the Paris Club.

What are we doing there? What we are being asked to do is to pull the chestnuts of the IMF and World Bank staff out. If the 40 HIPC countries repudiated and said, ‘No, we think it is cheaper to hire good private consultants when we need advice on a mine or a macro-economic policy than to have these heavy loans from the Fund and the Bank which are not performing,’ then at least 3000 Bank and Fund staff would be out of a job. Their necks were only rescued by the communist countries becoming clients. Without that, they would have lost most of their staff.

These are people who have gone into Africa year after year. I used to be responsible in the Bank for world debt. Every country that wants to borrow from the Bank or the Fund has to report its debt to the World Bank, and my staff—I had a division working on it—did that. I tell you that these figures are very incomplete, and nobody has told you this—I have not heard Ross or anybody telling you this: the military debt is not there because they do not admit their military debt. For many of these countries, even if you forgave all this official debt, bilateral and multilateral, they could still not service their debt because they have huge military debts. And, on the whole, they pay the private lenders before they pay the public lenders. So that is another thing you are doing: you are permitting them to service their military debt and to buy more armaments.

I would say that this Senate committee should make three recommendations. Firstly, strongly urge that countries that want to be free of debt repudiate their debt and then we will help them. Secondly, before this view is strongly put at the forthcoming Bank and Fund meetings and at other meetings organised to rescue the IMF and World Bank staff positions, the Canberra bureaucracy should get together, examine our role vis-a-vis the multilaterals—because the Asian Development Bank is no better than the others—and have a joint Canberra position; not be a Treasury position, not an AusAID position, but a national position that can be put. And it should be built around not conniving at the recycling of debt which the poor people of developing countries will eventually have to pay for. I have a table which shows the composition of 1997 debt in HIPC eligible countries. We will incorporate that table at the end of the transcript.

CHAIR—Thank you, Professor Hughes. I now welcome Associate Professor Brett Inder from the Department of Econometrics and Business Statistics at Monash University. Professor Inder is going to address this seminar on the impact of debt on economic growth for heavily indebted poor countries.

Prof. INDER—Thank you, Mr Chairman. They did tell me it would be a challenge following Professor Hughes, and it certainly is. There are plenty of very provocative thoughts there. What I would like to do, I guess, is to help you to switch gears a little bit—in my mind, to switch gears. Some time ago I became interested in the question of debt, as a few people that I knew were involved in the Jubilee 2000 movement, and because I was an academic economist they said to me, ‘Why don’t you try and get involved.’

I put myself in a rather difficult position because, whenever I tell my academic friends I am involved in the issue of exploring debt, they all think, ‘What are you involved in that for? How could you do something as naive as that?' Then, when I tell my friends in the popular campaign to cancel debt that I am an academic economist, they say, 'How could you be one of those? It is disgraceful that you would stand up for all those kinds of values.' So I find myself in a dilemma of trying to apply what I know as an academic economist and econometrician to a question which has basically arisen primarily from a popular movement.

I would like to suggest that the first thing we all need to do is become a little more open minded about the issue: accept that economists may have something to contribute occasionally, and accept too, as academics or as people who are in the professions—the experts, the ones who have all the statistics—that the popular voice may actually have a lot to contribute as well. The World Bank, as we have had so well explained to us, and the IMF, over the last 40 years have got it wrong. Even someone who has worked with the World Bank and tried from the inside to change it and to change the views has failed to achieve that.

It could just be that the answer may lie outside the box, and we may need to consider the matter more broadly. That is where I would put myself up as a supporter of a movement for a different kind of approach to the debt issue, and that is not exactly Jubilee 2000 but some kind of movement that is serious about debt cancellation. That is where I am at. That is my position. But let me back up a little bit and take you through a bit of a journey as to where I have been in trying to explore this issue personally as an academic.

What I particularly want to report on today is some work that I have done to try and establish some kind of link between the levels of debt that many nations enjoy—experience rather than enjoy—and their economic growth. I am going to try and do that so that we can first of all establish whether indeed debt is such a serious problem. I thought when I came here that there would be no question of that, but I figured it might be helpful for us to see that not just as an opinion but rather as something which we can empirically support. Indeed, does debt cause serious economic suffering for nations?

Secondly, if we can establish a link between debt and economic growth, can we quantify it? Can we measure the magnitude so that we can get some idea of the economic benefit that could come if some program of debt cancellation, as opposed to debt forgiveness, could actually be put in place?

First of all, I thought to myself that in exploring this question I need to look at a little bit of the economic framework that is actually going on. The model that is most popular for exploring economic growth is known as the Solow-Swan economic model. I am going to basically take that model and augment that model a little bit with allowance for borrowing from overseas.

When I went to my textbook to learn about economic growth and to particularly learn about the role that debt and credit play in economic growth, I was quite horrified to discover that there is nothing in the standard economic theory that suggests that debt is in any way harmful. All debt borrowed at a particular world interest rate, R, is going to, according to the theory, yield a return in the country of the debtor nation of R. Neatly enough, all your debt gives you the return exactly equal to the cost of borrowing that money, so the net effect of borrowing is never negative and can often be shown through the multiplier effect to be positive.

I thought to myself that that does not seem to ring true with the popular view, so I tried to generalise my theory just a little, particularly because there is another side of the economics discipline, which is the empirical growth area, where they try and take the theoretical models and apply them to actual historical data.

A recent paper in March this year that tried to explain the African economic performance highlights a real dilemma with the current theory. In that paper they survey a large number of empirical studies of economic growth of a number of developing nations. They find that there is a common theme in all of those studies. No matter how many variables one puts into these models to try and explain growth—everything from number of civil wars right through to investment, et cetera—there is always what is left over, the thing called the Africa dummy. The Africa dummy is that effect that, even having taken account of all other factors, Africa's performance is always significantly lower than the rest of the world. The theory really is stuck as to how we can explain that. Is it possible that debt may actually be part of the explanation for that.

I do not want to confuse you with too many equations, but I thought I would impress you with an equation just so you can see that I know how to write Greek. This is an equation for the investment of a particular nation. It suggests to us that debt will affect the investment of a nation in two ways. R is the repayment obligations that a country may have because of its debt. You would notice there that that is subtracted from Y, which is the economic growth. So a country will be unable to invest, or able to invest less, if it has significant repayment obligations. Instead of being able to invest 20 per cent of our GDP, if we have to take the first 10 per cent of our GDP and use it for repayments, then we have a smaller proportion available for investment.

On the other hand, debt may actually be helpful. New debt—ND—can be used for investment purposes. In the standard models, those two factors will cancel out. The new debt, together with the return that it yields in future times, will be able to cancel out the repayments.

I have put those in separately to allow the possibility that, as I think has taken place in reality, some of the new debt that has been borrowed has not been used for productive purposes. In other words, every extra dollar borrowed does not turn into an extra dollar of investment. Likewise, the repayments, when a debt's stock gets too high, become overwhelming and start to swamp any potential investment from GNP. The repayments could be thought of as a leakage, I suppose. So the balance between those two factors is a question of empirical analysis, to ask: is the net effect of debt positive or negative?

Moving to a brief description of the empirical work that I have undertaken, where I have taken a slightly more complex model than you saw there and thrown it at some data, I want to report to you a little bit of what I have discovered about the relationship between debt and GDP. I can say with great honesty that I started this empirical analysis a little under four weeks ago, which does not give you time to cheat and get the answer you want. The very first result that I got out here was a very significant result along the lines of the final result that I am going to report to you. So I have not gone hunting for an effect. I agreed to give this talk before I started the empirical analysis and I did not quite know what I was going to do if the results turned out the wrong way. Fortunately, they turned out to be quite strong, consistent with what my hunches told me.

I have taken 52 countries. These are the HIPC 40 or so that we have been hearing about today, plus another 11 which the Jubilee 2000 movement is arguing should also receive debt cancellation. I have looked at their economic performance over the last decade or 20 or 30 years, depending on how much data there is, and tried to explain that with a number of economic factors which are given to you by that messy looking equation up there.

The main factor, though, that I want to focus our attention on is that thing called D:Y, which is the debt to GNP ratio. We have heard a little bit about that already this morning from our second speaker, who showed us that the debt to GNP ratio of HIPC countries is substantially higher than that of other less developed countries. It seems as if that is a key indicator to us of the magnitude of debt and the potential effect it might have on the capacity of a country to invest. On the left-hand side we have got the percentage growth in GNP, or the economic growth, as we constantly refer to it. Australia's GNP growth is about four per cent in real terms, for example.

It is difficult modelling 52 countries for economic history and economic growth, and so I have had to make use of some of the techniques that are in the literature already. I am trying here not be too radical with my approach to the question so I am using, as much as I can, standard econometric techniques for dealing with this panel data type situation. But that is just to say all that I will leave aside all the technical stuff. I do have a paper which I think might be available later today, if anyone wants to read some of the technical things.

Here are the results of the model—this is time for John to wake up. I am going to try and illustrate them for you a little bit. I have just thrown up a few countries and a few of the coefficient estimates that are there. Again I will not spend any time trying to interpret too much of that for you; I will do it by way of an example at the bottom of the page there. We have taken the Republic of Congo. The key factor there is: if you look at the lag debt on GNP variable—that is the D:Y variable that is the key one—how much does the debt to GNP ratio affect economic growth? You can see it has a negative sign and a coefficient of 0.0314, which is, in the simplest of terms, about minus three per cent. But things are a little complicated because that is not a linear model. It is a log one plus D:Y model, so I have got to disentangle that with some maths. I have put a little graph on the next slide for you which helps us to isolate and identify exactly what that model there, those parameter bays, is telling you the effect of a debt to GNP ratio is on output.

Demonstrating my limited Excel skills, I could not get labels on my axes so I will have to explain to you what we have here. On the horizontal axis we have the debt to GNP ratio at different levels, from zero right through to 10. On the vertical axis we have the marginal effect that that will have on economic growth, on average at least. So you can see that, if you have a debt to GNP ratio of about one, which represents the lower end of the 41 HIPC countries—not the very lowest but the lower end—then that will give us a minus four or thereabouts, which is a detrimental reduction in economic growth of around four per cent.

To go back to the previous slide: I have actually done a couple of figures for the Republic of Congo. In 1971, its debt to GNP ratio was 0.4, so 40 per cent of its GNP. That in turn, from looking at the graph that we had on the previous slide, would reduce its growth by about 1.87 per cent per annum. Its underlying growth rate was 7.4 per cent, according to the model, so if its debt was in 1971 levels then its growth would be around 5.5.

By 1996 this country had a debt to GNP ratio of 3.74. This is going to have a massive impact on economic growth: reduce its growth by 8.6 per cent, leading to a contraction of the economy of about minus 1.2 per cent. Indeed, if you look at the economic growth performance of this nation for the last few years, you see that its average growth rate is minus 1.5 per cent, so the model fits very nicely at the end. Indeed, because of that massive debt level, this country is going backwards.

To turn to a couple of other examples: we have got a graph there for Sao Tome and Principe. I have put here for you a simulation of the model where we allow the possibility of debt not increasing over the last 20 or so years. So, in the first graph you see, the squiggly line is the actual GNP per capita of this nation over the last 20 years or so. You can see that its GNP per capita, in nominal terms, has gone from about $US400 down to just above $US300. So things have remained relatively stable, although there has been quite a serious decline from 1989 onwards. It improved for a while and then went backwards.

The model suggests that, if the debt had remained at the level it was in 1979—31 per cent of GNP—then the curve which goes gradually upwards would have been the historical behaviour of this nation. It seems to suggest that the outcome could have been quite different for this nation had its growth been different.

On the next slide we can see, perhaps more explicitly, why it is that the debt variable seems to come in so clearly and to explain so much of what has happened with this country. The extra graph you can see, which starts at virtually zero in 1977 and goes up to around 600, is the debt to GNP ratio of this country in percentage terms. So at the end of the series it is about 600 per cent of GNP. This is one of the largest indebted countries of the 41 HIPCs.

As a minor observation: Professor Hughes mentioned that these countries do not have high debt. I would like to suggest that, if you do a little bit of quick mental calculation, you can see this country's debt is in 1996 unambiguously higher than it was in 1977. We may argue about what is high and what is not high, but it has gone from six per cent of GNP in 1977, or 31 per cent in 1978, up to about 600 per cent in 1997. From 30 to 600 is about 20 times larger debt as a percentage of GNP, whilst GNP has gone down by abut 25 per cent. If we factor that down, we are looking at an increase in actual debt level of about 15-fold. So the debt levels that we are talking about for this example is non-trivial. It is a substantial increase in the debt level.

Can debt cancellation actually help the economic performance of these nations? Figure 3 is another attempt to use the model to simulate what might happen in the future if debt cancellation were implemented.

I accept that pushing any model like this out to the year 2015 is somewhat speculative but my co-author was very excited by that date as it is the target date for the World Bank to remove poverty, et cetera, so we thought we would give it a go and see what happens. For Nicaragua, what we have done here in the first graph—the one that goes downwards slightly—is to suppose that debt, not as a percentage of GNP terms but as a dollar value stock of debt, remains at the level that it is right now. I forget exactly what the figures are for Nicaragua. What is that going to do?

The clear indication of the model is that that will cause Nicaragua's GNP to decline to just over half of what its current levels are, from $US400 down to just over $US200. It is a fairly significant observation because that suggests to us one of the conclusions I will make, which is that these nations are bankrupt, they have dug themselves a hole and they cannot get out of it according to standard methods. There is going to be a radical move and a radical change needed. If on the other hand we were to have cancelled debt two years ago then the story goes quite differently. We see the GNP growing from $US400 per person up to nearly $US1,200. The outcome is five or six times better than otherwise.

To look at a couple of other countries with the same analysis, we come back to Sao Tome and Principe where the situation is even worse because the size of the debt is so huge at the moment—six times the GNP level—that it is just not sustainable. That country would go backwards. This is not what is going to happen, by the way, because this country is just going to default more and more rather than see GNP levels go from $US300 down to $US100. If we force the GNPs to go that low we are forcing these people to starve. Before they starve, they will probably repudiate their debts willingly or otherwise. On the other hand, if we were to cancel their debt, you can see a significant potential improvement in the economic wellbeing.

I will jump over figure 5 and go to figure 6. Haiti is one of the countries with relatively low levels of debt per GNP—about 50 per cent or 41 per cent from memory. You can see in that situation there that the debt cancellation would see some improvement but not nearly as large as otherwise. The model suggests to us that, indeed, you can achieve something from debt cancellation. It can potentially make a difference to these nations' economic wellbeing.

What will Australia's contribution to debt cancellation cost us? I want to make a couple of comments about this. My figures are also in the table in my paper so you can explore those and we can debate those if you like. As most of us know, we have a bilateral debt; we are owed around $90 million from four countries. Nobody but us is going to cancel those debts. Just as we are not responsible for the loans that the United States or Japan have made to other countries, no other country is responsible for the loans that we have made to these countries.

The four countries we are talking about are actually meeting their payments on their particular loans to us but it is clear, if you look at a broader analysis, that they are not meeting their payments to many other debt obligations they have. If we were to take the initiative and cancel these debts, then we would be able to see a great move ahead in their ability to repay other debts.

Multilateral debt is a little more complex. 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. I have done some figures there, of which the bottom line suggests that we probably need to contribute about 1.6 per cent of the debt cancellation. My figures are for the 52 countries so that would translate to around $2.2 billion for Australia to contribute to cancelling debt stock. That translates into a forgoing of income in the future.

Finally, let me draw a few points together with my concluding remarks. Where have we gone with this empirical work? I tried to do what I do best which is do econometrics to analyse and measure the effect of debt and the effect seems to be very significant. According to the analysis that I have done, debt is probably the strongest factor in the case of these HIPC countries driving their economic performance. Debt cancellation seems to be the only option for a way ahead. These countries have dug a sufficiently large hole—or someone has dug the hole for them, depending on how you look at it—that they are unable to get out of it without external help.

The final comment I would like to make is the suggestion that the mechanisms by which debt cancellation takes place need to be carefully thought about. This is where I strongly agree with Professor Hughes that we do not want to repeat the mistakes of the past and that rather we need a mechanism whereby the debt cancellation is effectively done.

HIPC has got some very good steps in that regard but I would suggest that there are some creative alternatives needed and there are some very good ones out there. I have put a suggestion up here for how we may actually be able to help countries to follow certain policies as a condition of cancellation of debt service so that the money is being used in productive ways. That is what needs to be explored at the policy level. And again I think creative solutions are needed.

Professor Hughes suggested to us that we have to accept the reality that the aid budget is fixed or, if anything, declining and therefore debt relief will come out of that budget and the question has to be: what is the best use of it?

I would like to argue that we cannot accept that situation. We cannot accept an aid budget that is declining. We have a new millennium. We have an opportunity for a one-off action which will radically change—unless we do something the face of this globe will continue to take the shape it is which is greater disparity between the rich and the poor. What I am suggesting is that this debt relief needs to come over and above existing aid levels.

CHAIR—Thank you, Professor Inder. I would now like to welcome Mr David Pearl. Mr Pearl is the manager of the World Bank and APEC finance ministers unit in the Department of the Treasury. I invite Mr Pearl to speak on Australia's position on world debt, on some of the financial implications of debt relief and on other issues. The Treasury is the department that administers the Commonwealth's position on the World Bank and other issues. Would you please welcome Mr David Pearl.

Mr PEARL—Thank you very much, Mr Chairman. I will give my address from down here. I do not have any overheads. In exploring some of the financial implications of the HIPC initiative I want to cover three broad areas. First, I will just provide an overall comment on HIPC as it is now and some of the changes or modifications that have been discussed since the G7 summit in Cologne; secondly, I will sketch very broadly some of the financial implications those proposed changes might have and some of the unresolved funding issues those in turn raise; and, thirdly, I will touch then on Australia's participation in the HIPC initiative and some of the principles guiding our approach to this issue generally.

I am conscious I may well overlap with comments already made by Ross Muir from AusAID but I will try to minimise that. As Ross has already said, we do support the HIPC initiative and the current review. While the fundamental features of the initiative—its comprehensive nature, its focus on the poorest countries with the most serious debt burdens, and its linkage of debt relief to sound policy track records—are sound and should be retained, we accept there is scope to improve and simplify its operation in practice. For these reasons the government supports the current review of the initiative being conducted by the World Bank and IMF staff which is expected to result in concrete proposals for enhancement in the near future.

As you are all aware, G7 finance ministers meeting in Cologne earlier this year called for broad-ranging reform at the HIPC initiative to enable it to deliver faster, deeper and broader debt relief to poor countries while retaining the initiative's current focus on demonstrated policy track records. Responding to concerns expressed by NGOs and others, G7 finance ministers called also for stronger links to be forged between debt relief and poverty reduction.

Key elements of the so-called Cologne debt initiative are currently being fleshed out by the staff of the IMF and the World Bank. Modifications which are on the table and being discussed include, as you are probably aware, lowering debt sustainability targets to provide further assurance that HIPC beneficiaries will achieve a permanent exit from unsustainable debt, and fixing the amount of debt relief on an up-front basis at the so-called decision point rather than the completion point. This would simplify the operation of the initiative, reduce uncertainty for qualifying countries and, for most HIPCs, increase the amount of assistance provided, given that net present value of debt to exports and debt to revenue tend to fall through time.

Other changes include delivering debt relief earlier through use of floating completion points, greater interim assistance by multilateral institutions, and front loading of debt relief following the completion point when debt relief is delivered. These changes are intended to free up more resources at an earlier stage to finance poverty reduction and other social programs.

Proposals are also being developed to strengthen the link between debt relief and poverty alleviation. I will not discuss this issue here but rather focus on possible financial implications of an expanded HIPC along the lines I have just outlined.

Possible enhancements flowing from the G7 finance ministers, if implemented, would increase the number of countries qualifying for assistance from 29 to 36. According to the IMF and the World Bank, it would more than double the overall cost of the initiative from $US12.5 billion in 1998 net present value terms to $27.4 billion. This higher overall cost would flow through into higher costs for bilateral and commercial creditors, including through the Paris Club, and also multilateral creditors, in particular the World Bank, the IMF and regional development banks.

This cost implication raises a central and still unresolved issue of funding some of the G7 commitments. The proposed modifications to HIPC will not be realised and will lack credibility in the absence of substantial further progress on the funding front. While we support in principle many of the proposed changes in HIPC, lack of clarity on the funding issue remains a concern. For example, the controversy over the G7 finance ministers' one specific funding proposal, the sale of part of the IMF gold reserves to finance its contribution to HIPC, has brought the funding problem into sharper relief.

I should make clear that Australia, as you are probably all aware, is not in favour of the idea of IMF gold sales for this purpose, given the fragility of the gold market and the dependence of many HIPC countries on gold exports. These concerns were underscored by the recent UK gold auction which saw gold prices reach historic lows. IMF gold sales, regardless of Australia's view, are now in doubt, given the strong opposition of important sections of the US Congress to them, both on the left and the right, and also South Africa. Between now and the annual meetings of the IMF and the World Bank, funding will be the main focus. Our view is that the multilateral financing gap—that is, the IMF and the World Bank's own HIPC related costs—should, to the maximum extent possible, be financed by the International Financial Institutions themselves. After all, it is their debt.

In the weeks ahead we and others will continue to urge the multilaterals to explore and propose options for ways that they can achieve this. We recognise, however, that there are no simple solutions to this problem and that difficult trade-offs may have to be made. For example, proposals have been made for the World Bank to replenish its HIPC trust fund from further net income or profit transfers and IDA reflows.

While these options may merit closer examination, they undoubtedly involve difficult trade-offs. Many argue that the use of IDA reflows, for example, would reduce the amount of resources available to other non-HIPC poor countries—that is, those that have managed their debts responsibly. The World Bank, moreover, argues that there is little scope to increase the already substantial funding earmarked out of its IBRD net income or profits. While it may be possible for the international financial institutions to finance much of their own HIPC related costs, bilateral donors, including Australia, may well be called upon to help close this multilateral financing gap. It is too early to say how large this gap will be and on what burden sharing basis it will be filled, so I cannot be more specific on that.

I have focused so far on the overall financial implications of proposed changes to the HIPC initiative. This is appropriate given our strong support for multilateral approaches to debt relief and our belief that the HIPC initiative is the best way to deliver this. Australia, as Ross Muir has already said, has contributed $30.5 million to help the World Bank and the IMF's participation in the initiative. On the bilateral front, we have been an active player in the Paris Club process, participating in a number of reschedulings sanctioned by this group, most recently for Nicaragua.

It should be noted on a broader level that the majority, as others have pointed out, of HIPC countries are outside our region, mainly in Africa. Australia holds a tiny proportion of the $US200 billion in nominal debt owed by these countries, mainly to the international financial institutions and bilateral donors such as the US, Japan and France, which have provided much of their aid through loans as opposed to grants, which is Australia's approach.

To be specific, Australia is owed a total of just over $80 million by four HIPC countries—Vietnam, Ethiopia, Nicaragua and Laos. Vietnam accounts for the majority of this—over $60 million. But even this figure can be misleading, given that Vietnam, despite being listed in 1996 as one of the 41 HIPC countries, does not qualify as a HIPC country under the current criteria. Vietnam's debt to export ratio, at only 57 per cent, falls well below what HIPC considers unsustainable debt, which is well over 200. Ethiopia is also a special case. HIPC related relief for this country has been put on hold given the current civil instability affecting it.

As I have already noted, Australia is pursuing debt relief through established multilateral processes which deliver important benefits to developing countries, as well as ensuring equity in treatment of creditors. Multilateral approaches ensure that all creditors participate in debt relief efforts and that no one creditor can free ride on relief granted by the more generous among them. Multilateral frameworks also benefit debtor countries in direct ways, allowing them to negotiate with creditors as a single group and, through comprehensive agreements, establish a clear basis for debt sustainability.

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.

In fact, the IMF itself has commented that debt relief is part of a wider framework to lift living standards in developing countries. That framework would also include elements such as improving frameworks in those countries for poverty reduction; policies in those countries to promote sustainable growth; increased aid flows from the international community in grant form, which is the way Australia approaches it; restraining commercial export credit lending to HIPC countries; and perhaps most importantly of all, giving HIPC countries unrestricted access to industrialised country markets for export products which are important to them—raw materials and agricultural products. So it is important in focussing on the very important issue of debt relief that we in the international community do not forget this broader canvas of issues and we maintain pressure along the whole front.

Quickly, in conclusion, Mr Chairman, we have been an active participant in the HIPC initiative process and discussions, and we have supported the current review, which should result in a more effective, efficient and focused debt relief effort. The financial implications of any modification to HIPC are substantial, however, and in the coming weeks and months attention will focus on this issue. We and others are looking for the International Financial Institutions to take the lead and will urge them to come up with concrete options. It is still too early, however, to be specific on how much funding will be sought from bilateral sources. Thank you.

CHAIR—Thank you very much, Mr Pearl. We will now have a period of questioning and comment, and I invite questions from the floor.

Prof. REMENYI—I would just like to draw attention to the fact that the Jubilee 2000 supporters have been somewhat misrepresented in much of what has been presented in this session. Jubilee 2000 supporters agree that many of the HIPCs have been badly managed. We agree that they have few fiscal resources. We agree that they have few exports. We agree that their governments have chosen to exploit their populations. We agree that they have misappropriated resources. Jubilee 2000 does not deny poor management. It acknowledges poor management, but it acknowledges that the poor management has been on both sides; that the World Bank and the other creditors have been just as complicit in that poor management as have the governments of many of these countries.

The key question in getting better management is: why should the innocent pay? I think that Jubilee 2000 does not seek forgiveness without conditionality. It wants management that is just; it wants management that is accountable; it wants management that is transparent; it wants management that is equitable. Conditionality has to change. I am somewhat disappointed that Mr Pearl's presentation has not focused in on the policies that we have to pursue to ensure that these conditionality requirements meet those criteria. 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.

I also question Mr Pearl's comment—and I think Professor Hughes also made this comment—that debt relief somehow or other will make borrowing by the good governments more expensive. That all depends on how it is financed. The IMF has a rule that it gives out to governments saying, 'Let the market rule.' Yet it will not listen to that same dictum itself. The IMF gold stock is currently valued at $47 to the ounce. Revaluing that at market rates—a structural adjustment that the IMF could adopt—would pay for the debt reductions without anybody having to put a hand in a pocket. Yet will it do that? No. There are many options available here and I think they all need to be canvassed. I was a bit disappointed that these were not in the papers that were delivered.

CHAIR—I take that as a comment rather than a question, but if anybody wishes to respond, they can.

Prof. HUGHES—Yes, I would like to respond to that. No conditionality is going to make countries behave better. We have proved that over a long period. In Latin America, which does not happen to be in the debt crisis, the poor are desperately poor. People are poorer in Brazil than in India. No amount of conditionality is going to do that, only the countries themselves are going to make the difference. I think the first step is to get the Fund, the Bank, the NGOs and the bilateral lenders out of those countries and see that they improve their policies. They can then invite back whomever they want. That is what repudiation would do.

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. If a country like Thailand in the 1970s and 1980s came to the Bank and said, 'Look this is what we want to do. Will you write it into your conditionality so that we can persuade our parliamentarians and other obnoxious people that we have to do that?' then that conditionality will work because the Thais have decided on it, not some guys in the IMF or the World Bank. I do not think there is any way of forgiving debt that will lead to good conditionality.

The second point is, Joe, you do not seem to understand that the World Bank and the International Monetary Fund cannot repudiate debt. It is a matter of religion for them because if they repudiated debt they would admit that they have made mistakes, they would admit that they have non-performing loans, and they might have to sack a few people who were responsible for those policies. So it is an absolute bottom line. I think going along to the discussions in Washington is a mistake.

Senator QUIRKE—My question is to the first two speakers, to Helen and to Brett. There was a big contrast between your two presentations in terms of where the future is going to be for some of the HIPC countries. In fact, on Brett's analysis the removal of debt would lead in most instances, it would be fair to say—and correct me if I an wrong—to quite dramatic improvements in GNP up to 2015. I wonder whether the two of you could comment on that and, indeed, Helen, what you think of that particular proposal.

Prof. HUGHES—I see that Ron Duncan, who is a much better econometrician than I am because I am too old to have learnt econometrics properly, has got his hand up. I would like him to comment on the econometrics behind that model because I think it is very important for this meeting. You have been shown a black box. Is that possible, Chairman, to get Ron Duncan to—

CHAIR—Are you happy with that, Senator Quirke?

Senator QUIRKE—Yes, that's fine.

Prof. DUNCAN—I was, like Helen, rather surprised that Janet Hunt never mentioned economic management in her whole talk. I think that that is what Professor Inder is also missing from his discussion.

As an aside, and to make the point another way, Ross Muir mentioned that one of the problems of the highly indebted African countries was terms of trade losses. He is really referring to what happened to primary commodity prices in the 1980s when, in relative terms, they declined. It is of interest to note that those prices apply throughout the world. There were other coffee and cocoa producing countries in other parts of the world that had the same price decline but whose revenues from cocoa and coffee and other production actually went up because their productivity increased.

That is the difference in terms of economic management, that the African countries depended upon primary commodities and never did increase their productivity, whereas the countries of Asia that were highly concentrated in coffee and cocoa and others did increase their productivity. In fact, there is an interesting story that goes along with that. After colonisation, many of the African countries kicked out the expatriate people who were skilled in coffee and cocoa production and they ended up in Brazil and Malaysia, which then became their prime competitors.

So, economic management is what it is all about. I was surprised that Professor Inder showed such a lack not only of what is going on in developing countries but also of what is going on in economic theory and thinking about economic growth. His sorts of modelling still rely on the old style thinking, that it is capital that is important.

Just to give you a little story about how economic theory has gone in terms of what economists think is important in terms of economic development, once our economic theory thought that it was only capital that was important, that so long as we could get capital shifted to these poor countries they would grow. That is what our model said and we concentrated on things like ICOR ratios which talked about how much capital you put in and how much output you got from that.

Later on, in the 1970s, economic theories brought in what we call human capital. It meant that education and health are important, that you need to have a healthy, well educated population in order to grow and develop. So that got fed into the World Bank and other development banks lending projects. More and more projects concentrated now, not only on dams and bridges, but also on education and health.

Then, at the end of the 1970s when they looked back at all the projects that had been going on over the past 20 years, most of them had failed, particularly in Africa. Every project in Tanzania failed. Then the story was, ‘Well, we didn’t get the policies right.’ That was the beginning of structural adjustment. The focus then shifted to structural adjustment programs—getting the policies right will only give you such and such if you do this, that and the other. And that is where conditionality burst into full flower.

We have just had a series of studies by the World Bank looking back at what has been happening since 1980—the last 15 or so years. Conditionality has not worked. In all those countries where the World Bank and the Asian Development Bank and other lenders have set conditionality, they have not been able to buy good policies. As Helen said, only those countries that already have good policies and have taken loans or grants have had success from that. It is all about good policies.

But the latest thinking in development is that it really is not capital, it really is not human capital and physical capital, it really is not policy. It is all about the basic institutions on which an economy functions, that is, property rights and the impartial enforcement of contracts, which are the basis of all market activity, and unless countries have those institutions in place, nothing happens.

It does not matter how much capital you throw at them, how many projects you throw at them, how many skilled people you send there, nothing will work unless people can write contracts between each other and they will be honoured by the courts. You cannot have governments going in there with what we call discretionary behaviour saying, ‘We will forgive this contract or we will interfere in this contract.’ That is what is missing out of Professor Inder’s specification. He has basically got a very simple variable there which is capital over income.

All I have been talking about is what sorts of things drive the income, the thing that is on the bottom of that. That is what is missing. The kind of framework that he has is the old framework, the ICOR capital and output ratio. It has nothing to do with what drives income. What drives income and generates GDP is the basic institutions, the things that make the projects work. I would suggest that you really need a much better specification in order to cast any sort of light at all on this discussion here.

Prof. HUGHES—I would like to add one point. I think that Professor Inder’s econometric model obfuscates the issue. It comes up with entirely erroneous projections. Projections are always a bit iffy, as anybody knows who has projected anything. But this particular projection is totally erroneous. I think it is unfair to present an econometric model as if it was something that reflected reality to a group like this. How many people here know some econometrics? You can spot the problems, but nobody else can. You do not realise that what he has given you is a bunch of assumptions, the chief assumption being that capital is the only important variable. That is what all his forecasts are derived from.

Mr PRICE—I did not get that impression at all.

Prof. HUGHES—If you did not get that impression, it is because you do not understand econometrics, I am sorry to say.

CHAIR—Professor Inder has been invited to address this forum. Senator Quirke did ask a question and asked both Professor Hughes and Professor Inder to respond to it. I think we should let Professor Inder respond.

Prof. INDER—The first comment to make is that, as was pointed out, there are certainly plenty of developments in economic theory, growth theory, about the factors that explain economic growth, including the human capital—education and what have you—and institutional changes. My argument would be that all of those factors are at work with the capital and the labour which is supplied to a particular economy. In order to produce a gidget you still need a gidget producing machine—in other words, capital is the fundamental thing. But if you have an archaic machine which has not got the best technological developments or if there is corruption in the economy or if there is not the rule of law, then the gidget is not going to translate into output. So we are still fundamentally working with capital and labour as the fundamental inputs, but I accept wholeheartedly that there is no doubt that there are plenty of variables which contribute to the effectiveness of those things in growth.

In my model I have tried to take account of those, in a manner which I am not very happy with—and I have not explained the technicalities of that. In my defence, I did speak with the audience in mind and say, ‘If you want to see some of the detail, look at the paper,’ which is available later today. Any time you present anything technical you are faced with that dilemma of not wanting to be seen as a black box but, at the same time, wanting it to be understandable to people.

All of the factors which have been pointed out in the questions from the floor are included in the paper ‘Explaining African economic performance’, published in March this year—that is, human capital, institutional changes, political instability, education levels et cetera—and, despite that, there is still this puzzle that the economists face of trying to explain why it is that Africa is different. So my point is that, even if we take account of all those factors, there is still something missing, according to the experts in the field.

What I have tried to do here is get some hint as to whether the factor that is being ignored is the debt burden. That is what my results have tried to cover. Terms of trade, by the way, is another factor that is in there. The results are not perfect and I am really not pretending that one would take seriously forecasts into the future. I would like to think of those simulations into the future more as just that—simulation scenarios: if we held everything else in these countries constant, from the year 1997 onwards, what would happen if we cancelled debt, as opposed to what would happen if debt remained at its current levels? Clearly, not everything else is going to be constant and these countries are not going to follow those paths. But that analysis allows us to highlight the role that debt actually plays in their economic performance.

CHAIR—Thank you.

Ms ORMEROD—I am Thea Ormerod. I am in the Jubilee 2000 movement. My question is to Professor Hughes. When you have just admitted that projections are always iffy, when the IMF and the World Bank have been going on particular theories of what needs to happen in order for these countries to get out of trouble and have applied those and they have not work, and you keep moving from theory to theory, where does your certainty come from that debt cancellation is not going to be of benefit to the people?

Prof. HUGHES—My certainty comes from a reading of the development literature. There is a great deal of information about it. There is a great deal of writing about what causes growth which was not included in Brett’s model, which he has admitted. I am not talking about projections at all. I am basing myself on the literature, on the analysis of what has caused some countries to grow, in Africa as well as everywhere else, while other countries have not grown. That literature is unanimous in pointing out what Ron Duncan said, what the factors are that lead to growth. They have been operational in Botswana and Mauritius. They are not operational in these other countries, and until they are operational those countries will not grow; they will go on impoverishing their populations, as they are doing now. This is all based on knowledge that is readily available to everybody.

CHAIR—I can see you want to ask something else, Ms Ormerod. In the Senate we allow supplementaries so I will let you go ahead.

Ms ORMEROD—Who has written this information? What perspective does it come out of? Does it come out of the people of Africa themselves or is it from people from other countries with their own—knowledge is not some kind of scientific—

Prof. HUGHES—You will be pleased to hear that there are many African contributors to this debate. There are African economists—many of them in exile, unfortunately—from countries like Nigeria and other African countries who have written and studied in universities worldwide. A lot of them write in French. Some of them are located in Belgium. There are many African economists and I rely on their information more, as you would, than on the people who are just meddling in the affairs of other people's countries, like the Bank and the Fund and so on. But there is a vast amount of literature on this and it has been summarised by Duncan.

Mr COLLIS—I am David Collis, from Jubilee 2000. I am curious, Helen, about your idea that Jubilee 2000 is the last gasp of paternalism and colonialism. I reckon some of your parochial generalisations are interesting. Spending as much time as you have in the area would, I think, embitter anybody. I have a feeling that structural adjustment programs are the most paternalistic institutions that there are, and that Jubilee 2000 is offering an accountable alternative which tries to move beyond colonialism and tries to move beyond this meddling in countries.

An important factor is that a lot of Jubilee 2000 comes from the poor countries. It has been portrayed as if it is a First World movement, but it is not—a lot of guidance does come from the Third World. As a secondary part of that, I think it is not really fair to portray it as just an issue of bad governance. If you look at what happens, the bad governance has to come back to the rich nations, certainly historically. There was $450 billion given to dictators who supported our side in the Cold War, and $450 billion is more than those 52 countries owe presently. If America had not been giving these loans to dictators all the way along, then it would be a vastly different situation. So when we stand here and say, 'These poor people have made bad decisions on how to run their own countries,' that is the height of arrogant paternalism, and I think we are just adopting it at a more insidious level with these comments. How can you possibly say that?

Prof. HUGHES—I will tell you how I can say it. If you look at Bank archives you will find who fought structural adjustment in the 1980s. I was the most prominent person opposed to it. I thought it was really a lot of bull. It was just writing cheques for incompetent governments who made a mess of cocoa and other problems. So I am not guilty, and I did leave the Bank shortly after that. I was there for 15 years, but I left it on principle as well as because it was personally convenient.

I read what Jubilee 2000 writes and it strikes me as totally paternal and colonial. What business have you got saying 'you' will forgive their debt? They will either repudiate it and do their own thing, or, instead of being beholden to the World Bank and the fund, they will be beholden to 'you'. I just do not see any difference. As for representing people in the countries, yes, I know—like the MAI opposition was a universal opposition worldwide.

These Internet oppositions are very interesting; they are just being analysed by scholars and they are very interesting. But I do not care where it comes from. I can see the publications, I can see what you say and I think you are trying to replace the Bank and the Fund with a ‘you’ type of paternalism, and I am opposed to that.

Mr COLLIS—Have you read—

CHAIR—Hang on. We have three other questions.

Mr COLLIS—Can I have a quick comeback to that, please?

CHAIR—I do not want it to turn into a debate. It is a forum. I am sorry, I have three other people with questions and we have to stop at five past 12, so I think it is only fair that they have a chance to put their questions. Those are the last three.

Ms EMERY—My name is Dominique Emery. I am a representative of Jubilee 2000, and my question is for David Pearl. It is a purely statistical question. Senate question No. 604 was posed to the Minister for Foreign Affairs regarding the debts owed to Australia by HIPCs. Senator Hill, as minister representing, gave this reply:

The levels of debt owed to Australia as at 30 December 1998 from those countries classified as HIPCs are: Ethiopia ($15.3 million), Nicaragua ($5.7 million) and Vietnam ($67.6) million.

My question is in regard to Laos. When was money lent to Laos and how much was lent? If that money had been lent as at 30 December 1998, why wasn’t the question about that money put at Senate question time?

CHAIR—I think that is a question Mr Pearl would have to take on notice.

Mr PEARL—I would have to take it on notice.

Ms EMERY—We would appreciate knowing the amounts owed by Laos.

Mr MUSA—I am President of the Ahmadiyya Muslim Association of Australia. Today there is a very complex situation. The role of banks is very complex, and the role of multinationals is very complex. I do agree with Professor Hughes’s principle that, if you borrow, you have to pay back. There is no way out of that. The most important thing is to guide the country that is in debt. Another thing is that, if you are bankrupt, you are declared bankrupt and you can start again. But in those countries, I suppose they face a difficulty. My question is: is there any way of cancelling the interest which these countries have to pay? There is a lot of interest on the loan of the principal, and they cannot pay that back because of the huge interest that has been burdened on them.

Prof. HUGHES—If you take a strictly Muslim view, you should never have agreed to a loan on which you have to pay interest, because that is against your religion. I am surprised that some of these Muslim countries borrowed on those terms. We are not talking about countries. The people who farm in Liberia never agreed to these loans, and they have never seen a penny of it. I am just talking about countries that I know well myself, in East Africa where I have worked. In Sierra Leone they have never seen a penny of it.

The government of Sudan is a cruel, rapacious government that has been concerned in the last 30 years with murdering people in the south. I do not think they were too concerned about the religious aspects of the interest rates. Why would you forgive the government of Sudan their debt—so that they can murder more people? If the government of Sudan says, ‘This was done by our predecessors. They were bad guys. We repudiate what they did,’ I think we should all say, ‘Terrific, we will get on board.’ But until they say that, who are we to forgive the government of Sudan without any sign of their even saying, ‘We are sorry we killed all those people’?

Mr HEWETT—My name is Andrew Hewett. I am from Community Aid Abroad, Oxfam Australia. This is a question to David Pearl about gold sales. It is a double-barrelled question. First, from information I have received, my understanding is that the Reserve Bank of Australia has been informally floating a proposal on how to handle the question of gold sales and considering possible alternative methods of funding the IMF and perhaps a contribution from the African Development Bank to a revised HIPC initiative. Could you outline the nature of what that proposition by the Reserve Bank is, what its status is and whether the government of Australia will be pursuing it more vigorously.

On the question of gold sales and their impact, my understanding is that the possible sale of up to five million ounces of the IMF’s gold stocks has been factored in by the market since 1996. So it is not assumed, by sources such as the International Monetary Fund itself, that it would have any great impact on the price of gold. More to the point, the sales by national governments including, could I suggest, by Australia, have had more of an impact on the price of gold, particularly sales made by some major European nations in the recent past. There are other reasons for the long-term decline in the price of gold, including such things as cyclical developments, the expansion of mine outputs and the declining role of gold as a monetary asset.

Given the Australian government’s position of not supporting the use of IMF gold stocks to help fund the revised HIPC initiative, does it see any contradiction in the position taken by the Reserve Bank of selling off gold stocks within the last 18 months, and does it see that it is arguing that the only reason for a decline in the price of gold is the possible sale rather than the actual sale of IMF assets?

Mr PEARL—Thank you for the detailed question.

CHAIR—Just answer yes or no. I am conscious of the time and, if you answered all of those things, I think we would be into our next session.

Mr PEARL—I would like to run through some points. Firstly, I am not aware of the Reserve Bank informally floating proposals on how to handle IMF gold reserves, but I can—

Senator SCHACHT—They floated the idea informally.

Mr PEARL—No, not to my knowledge, but there is discussion going on in Washington of possible alternative ways that the IMF can draw on its gold reserves, maybe not involving sales. I am not aware of the Reserve Bank of Australia, informally or formally, floating anything. The gold market has been going through changes, and I do not think the government is arguing that prospective or possible sales by the fund of part of its stock is the only factor driving the market. There is a whole range of factors outlined in the question. Perhaps it is optimistic to say that sales of five million ounces by the IMF have been factored in. The reality is that the gold market internationally is very fragile, and that was shown in the recent UK auction of a small amount, which drove prices very low. There is a lot of speculative activity. There is a lot of use of sophisticated market instruments in gold at the moment, which really makes it difficult to be definite on the impact on the market of any particular IMF sale.

I suppose the broader point is that it is not necessarily intelligent to sell gold at a time of historic lows to raise money for HIPCs. We want to raise more money for HIPCs through the international financial institutions, and we are talking to these about how they can do that, but not in ways that destabilise an already fragile gold market.

CHAIR—I would now like to welcome Associate Professor Joe Remenyi from the School of Australian and International Studies at Deakin University. Professor Remenyi has had a lot of experience in the field of development economics. His paper to us today is entitled ‘Debt reduction: an issue of justice, equity and fair play’.

Prof. REMENYI—As you heard, I am another economist and, with the conversation here today, I feel a little bit like the man who said that, if you took all the economists in the world and laid them end to end, that would be a good thing to do. I am here as a supporter of the Jubilee proposal; I am not a representative of the proposal. But I am not here to talk about anything other than what seems to me to be, at core, a justice issue rather than an economic issue, although I think Professor Inder’s results have more power than Helen has given them credit for.

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 forgone if they are forced to repay them—at core, that is it.

The other interesting thing about this debt reduction proposal on a global level is that it is a very achievable issue. If you took the $A370 billion that the Jubilee 2000 52 countries owe, you could wipe that out by allocating $400 per person from the OECD population. That is not a lot of money. It is very achievable. It is a realistic target. It is something that we can do. It is not pie in the sky.

However, the question needs to be asked, ‘Why should we do it? Why should we make this gesture of solidarity with the poor? After all, isn’t it their own fault that they are in debt? Wouldn’t debt forgiveness merely reward bad government or weakness in the face of moral hazard?’

In this presentation, I hope to argue that we do ourselves a disservice in accepting those propositions. We need to be active participants in this program and to reject the low moral ground implied in rejecting debt forgiveness. I would like to begin by looking at how some of this debt has been accumulated and why we are complicit and should share in responsibility for it. First, we have already heard that debt forgiveness is not new. There was a major debt reduction program that was applied to Germany in the 1950s and it was very effectively implemented. We did not see Germany subsequently go down the gurgler; we did not see them reproduce the kind of debt that they had that came about as a result of their activities during the period and in postwar reconstruction.

We did, however, see Germany have exports to GDP ratios that were judged grossly non-sustainable. Yet, the ratios that Germany held in the 1950s that were judged unsustainable were only one-third or a quarter, depending on the country you look at, of those that apply to today's most heavily indebted countries. If, indeed, the global community judged itself needing to give Germany assistance at that time, I think there is a moral transference that says that we should take seriously the proposal before us for developing countries today.

I would like to begin by looking at some of the sources of the debt that Third World countries have which, in some cases, are attributable to factors over which they have had no control at all themselves. But let us look first at a factor that they do have control over. Developing countries have borrowed to invest in the future and this has been a good thing to do. Some of those investments have proven to be very powerful and have contributed greatly to the capital stock of nations.

However, in many instances these investments have been ill-conceived, they have been poorly planned, or they have been inconsistent with the capacity of the borrowing countries to sustain and maintain. How many defunct state enterprises are there that were built on the basis of borrowed money? Many of these loans were negotiated, researched and designed in collaboration with the lending agencies which, in so doing, bear some responsibility for the fact that they have now become non-performing.

The complicity of developing country advisers, technical experts and lending agencies is clear. We share in the responsibility of the debt burden that exists in part because there are non-performing loans, poor projects, poor program governments and policy errors. These are not management issues that can be sheeted home purely to developing countries.

There is another portion of the debt that comes about because of the need of the developing countries to borrow to meet disaster relief and management issues. Developing countries have been subject to many natural disasters and many emergency events. They have needed to import supplies in order to relieve the suffering immediately of people who were at risk. Or they have needed to import and borrow to do so to enable reconstruction to start. The interesting thing is that there is no single event that has had greater impact in this respect than the energy crisis of the period 1972 to 1980. No single event. In the scramble to recycle petro-dollars, energy importing countries were encouraged by the lending agencies to sustain consumption levels of fertiliser, petroleum products and energy dependent products, including staple grains, plastics, man-made fibres—you name it. They were encouraged to do so by borrowing to cover the cost of increased imports.

In a very real sense, we therefore find that the energy importing countries which included most of today's highly indebted poor countries were advised to adopt policies that hindsight shows to have generated important subsidies to world trade. By entering into debt to pay for imports, levels of foreign trade were maintained through the 1970s and the global recession delayed until the 1980s. The winners in this period of world economic history were the energy exporting nations and the exporters of commodities imported by poor energy importing countries. Typically, these winners were the OECD economies and the OPEC economies. It excluded today's highly indebted countries. It is incumbent now, I believe, on the winners to contribute to the relief of the debt burden that poor countries bear and to do so as compensation for the subsidies on which our prosperity has been built.

Another portion of the debt can be attributable to the need for countries to pursue national security. These, I would class under the general head of 'political factors' including the cost of war, civil disturbance, refugees and national security generally, including policing.

In the main, the debts that have been accumulated because of expenditures under these political heads are legitimate and the sovereign right of nation states. However, which of us here is prepared to say what percentage of these expenses have been excessive or what proportion of this excess has reflected the influence of successful marketing, political pressure or inducements funded by trade assistance offered through official and unofficial channels, supported of course by the military-industrial consortia that are active in almost every OECD member state?

To the extent that developing country governments and commercial enterprises have engaged in activities associated with the purchase of defence equipment and supplies by the heavily indebted poor countries, we share responsibility for the debt so accumulated. As immediate beneficiaries, there is an even stronger moral claim, I would argue, that the sellers of defence equipment and supplies should support debt relief even more so.

Another source of the debt has been borrowing to feed grand corruption. There is no other area of how developing countries have got into debt that is so emotively tackled in the debt reduction arena and in the literature. Yet this source of developing country debt accounts for a relatively small fraction of total debt, probably not more than 10 per cent. But there is an anomaly here. If debt relief is to be denied because some debt has found its way into bank accounts owned by dishonest political leaders in developing countries, doesn't that punish the wrong people? The just and ethical response to gross corruption must be active restitution by the closure of such accounts and the repatriation of these amounts to the cause of debt reduction.

Nowhere in the policies that you see dealing with conditionality or other has this become a cornerstone on which to build. By insisting on the repayment of ill-gotten sums held in developed country banks through misappropriated or borrowed money, we are simply adding to the burden of the poor who have no say in it at all. Failure to act on the restitution of these amounts makes the banks who retain those deposits complicit in the corruption that they represent, and by continuing to hold these deposits, or not realise on the assets, lending agencies have become partners in grand corruption. They do so at the expense of the poor. Enforced debt repayment merely allows them to double-dip in the trough of misappropriated resources.

Another source of the debt is borrowing to meet what is the real debt. One cannot consider policy options on debt reduction without noting the important role that is played by exchange rate movements that have made the repayment of debt so much more difficult. In some respects this element is reflected in the long-term terms of trade shift, which we can measure, and which over the past generation have moved aggressively against the capacity of developing nations to earn foreign exchange to meet debt service payments.

For most of the poorest developing countries, including Bangladesh, Ghana, Sri Lanka, Zambia, and countries of that sort, the terms of trade at the close of the 1990s are less than half what they were at the end of the 1970s. In some cases, exchange rates have declined even more drastically, as is the case for Indonesia, Thailand and the Philippines. So price movements of this sort make debts denominated in hard currencies such as the US dollar or British pound or German mark all the more difficult to meet, thoroughly discrediting the basis upon which any justification for the loans was built in the first instance.

In the 16 years between 1980 and 1996, for example, the external debt of Indonesia increased in absolute terms sixfold. In the following three years these debts increased in domestic currency terms more than 10-fold as the value of the Indonesian rupiah collapsed in terms of the US dollar. The economic events of 1997-98 transformed Indonesia from a country able to meet its debts, and with an incidence of poverty that was trending downwards, into a highly indebted and predominantly poor society.

It is true that some self-help relief from debt repayment is available to the governments of highly indebted countries if they adopt policies that will strengthen their exchange rates and strengthen their abilities to export. However, policies of these sorts jaundice the domestic economies to favour debt repayment over meeting the needs of domestic consumers. Politically, that is really not very sustainable. Furthermore, policies that give priority to debt repayment presume that markets needed to allow export drives to succeed will be accessible, and history has shown that this assumption is not reliable.

It should, however, cause us to ask why international loan agreements should not include provisions that guarantee market access to facilitate debt repayment. That requires a policy adjustment in the creditor country, not in the debtor country. It would also be useful to know how the real debt burden would be reduced if the current stock of debt of the poorest countries were allowed to be repaid at the exchange rates which were extant at the time the debt contracts were written. I think you would find that we would wipe out a very large proportion of that existing stock of debt.

If all future loan agreements specified the exchange rate at which loans could be repaid, one might expect lenders to assume a higher share of the risk associated with international financial transactions than is currently the case. At present, with loan guarantee programs and other kinds of political pressures, all of the risk is borne by debtor countries. The debt reduction proposals of the Jubilee 2000 program are a clear way of redressing these injustices—the injustices that have led to the accumulation of this debt, in the ways in which I have outlined.

The injustices arise because the current system is faulty. It needs fixing. It is grossly biased in favour of lending agencies. It has a gross lack of transparency and there is a lack of balance in the power and the procedures that operate and are imposed on borrowers by lenders. The market is defective. Under current practices, risks associated with official and private borrowing by developing countries are not shared, even where risk premiums exist in interest rates. Instead, risks are sheeted home to developing countries, even to the extent that developing country governments are often coerced into accepting responsibility for the repayment of private debt in order to ensure continued access to multilateral and public sector borrowing rights.

The outcome of these processes has been stronger balance sheets for the lending institutions and weaker balance of payments for the debtor countries. There is no level playing field. It is not borrower friendly. There are no channels that allow the representatives of poor people to have a say. Even where debt is corruptly generated and entered into, those who are asked to repay have no recourse other than the coercion of repayment. There is here a diversion between private benefits and social costs that is not integrated into the current institutional arrangements that govern markets for public or private sector borrowing. Some of the reforms that the Jubilee 2000 coalition have suggested address this market failure.

I had intended here to give you a whole list of some of the social consequences of not addressing the debt issue, but I think you have already seen quite a deal of that. Almost all of these social consequences come about because the priority that is given to investments that make people important—investments in health, investments in education, and investments in infrastructure—and allow people to live in safe and clean environments are not given the priority that the Jubilee 2000 process hopes will come about.

Notice that this is not about trying to leverage to get better management. We know that management is bad and we know that it needs to change, but separate from management, how priorities are set and the proportion of budgets in developing countries that is allocated to these areas of investment in human resource development are not a management issue. They are a priority setting issue, they are a political issue, and that is why they are so important in the conditionality negotiations in the policy area.

It seems to me that the rich and fortunate countries such as Australia cannot afford to reject the call for debt reduction. A poor world is not in Australia's best interests, an unjust world is not in Australia's best interests, yet if we do nothing then the world will become more polarised between rich and poor, and growth with equity will become impossible for the poorest countries. Brian Atwood, the immediate past administrator of USAID, said on 29 June:

> The industrial world is getting shamelessly rich while most of the world's poor are losing ground.

It does not have to be like that. We can make a change.

Jeffery Sachs, the director of the Harvard Institute for International Development, on 15 June last told the US House Committee on Banking and Financial Services:

> . . . the targets for debt reduction are derisory. Bankrupt countries are kept in debt bondage . . . a continued state of effective insolvency.

That is what we have to address. This is not a basis on which we can build an international community that is characterised by greater justice, greater compassion and a civil society.

So what are the policy issues that come out of this for us? They are about priority setting. On a global scale, Australia may not be a major holder of developing country debt. Nonetheless, as an initial gesture, Australia could signal the importance it gives to removing the shackles of debt on poor developing countries by getting involved in negotiations needed to reduce, forgive or cancel the debt that is owed to Australia. But, more so, I think Australia needs to be active in the fora that are producing the policies to ensure that these justice issues drive the positions we take.

The resolution of the debt problem has to be a by-product of the commitment we make to achieving sustainable development. It is not really a debt issue, it is a sustainable development issue—and I think that was the great power of Professor Inder’s presentation; it was on about what we need to do to achieve sustainable development. That has to be the central focus.

It would be presumptuous of me to attempt to outline a policy here. There are lots of public servants and other experts who are able to do that. But it does seem to me that, firstly, we can take policy positions that will ensure that there is a justice-friendly policy framework for sustainable development through debt forgiveness and that they will have some fairly basic conditions. They will ensure that there are fora in which all the creditors are brought together and in which the poor have a representation. Secondly, we can look for institutional innovations in international financial markets that will allow countries to access some kind of bankruptcy process, something that will be legal and go beyond just simply needing to repudiate debt but that will allow all countries to get behind it and enable people to overcome the problems they are in now.

Thirdly, we need policy reforms that give public sector creditors a role in policy priority setting, in budgetary priority setting. We are not trying to tell people how to run things or how to do their management, but putting people first counts. Fourthly, we need to reject the link between access to public sector borrowing and responsibility by the public sector for private debt. Fifthly, we need to be aggressive in rejecting corruption within the system, to pursue the corrupt and to make sure that the benefits they have had are turned towards benefits for poor people.

In closing, I would like to say that justice and good sense demand that the position Australia adopts on international debt should recognise the lessons of history, acknowledge the documented failures of the system, affirm the widespread assessment that the current system of structural adjustment programs has failed, and reject the injustice involved in demanding that innocent poor people, enslaved by debt, should be responsible for the repayment of debt generated as a result of grand corruption, poor policy decisions, inexperienced or bad government, or events over which they have had no control. Thank you.

CHAIR—Thank you, Professor Remenyi. I now welcome Mr Grant Hill, who is the Australian coordinator of the Jubilee 2000 campaign, and ask him to address the gathering. I understand Mr Hill's paper will discuss the Jubilee 2000 proposal to reduce the debt of developing nations, along with some other issues.

Mr HILL—Thanks very much for that welcome and for this opportunity to be able to share in today. I have added a few more bits of paper here so that I can respond, hopefully a bit more effectively, to some of the points that have arisen during our seminar so far. I would like to firstly give you a picture of Jubilee and what it is trying to achieve, secondly, give you a bit about the detail that we have tried to inject into the debate and, finally, look at some of the things that we are looking for into the future.

The first thing it is very important to do is to give you a picture of Jubilee. It is a movement of people. It is best seen as a network. It is a loose network of people who are committed to dealing with the issues of injustice that Professor Remenyi has just brought to us and outlined for us. In that network, there are many groups—many aid agencies and many churches in Australia. We are composed of over 41 member churches and aid agencies. It is out of this sort of grouping that the energy flows.

One of the things I would like to pick up is this issue about paternalism and where the motivation comes from. These churches and aid agencies are constantly networking and have friends and relationships in developing countries. They personally know stories of suffering and the statistical implications of the debt burden. And it is out of this relationship that we have begun on this project to celebrate the millennium by ending this long lasting debt crisis, this terrible debt crisis that is almost, in personal computer talk, like a screen saver that is there in the background. It is this horrible black comic screen saver of people dying, and we do not see it because, as soon as we bump the mouse, something nice and bright appears on the screen. But it is there; it has been there in the background for over a decade.

I want to just flesh this out a little more. The whole movement is embedded, enmeshed and enriched by the knowledge and information coming from our Third World partners. Last year, the Australian Jubilee Coalition, although we have limited resources, funded the costs for two delegates at an international conference. One was a Zambian Jubilee delegate, a guy with a PhD in economics, who was there to represent Zambia, bringing the Zambian perspective into the discussions and the debate. And there was a woman who heads up a senior NGO and who has been active in a whole debate about debt, economic management and so forth in Kenya. She was there representing Kenya. We paid to help them get there.

What I want to stress is that this is not a bunch of white people in Western countries setting the initiative. I was at a meeting immediately after the G7 in Cologne and I was faced with the terrible tragedy of knowing that there were colleagues there who, because of the suffering that they see, were outraged by what they saw as the intransigence of the IMF position, the failure to act that was seen in the Cologne position. So the relationship is very strong.

Jubilee's mission and purpose is to be a catalyst for change. We are agents for change. We do not have the capacity to come up with the detailed policy outcomes and prescriptions and to implement the detailed strategies that are necessary to resolve this issue. What we are able to do is to communicate the urgency of the situation, the real urgency of this need. Janet highlighted a point I was going to make, the fact that in 10 years the situation has deteriorated in the number of children who are dying—from 500,000 per year, according to UNICEF at that time, to now about four million, which is just tragic.

What we are trying to do is to generate the will and interest from academics, institutions and governments to actually tackle this issue effectively, to come up with effective solutions to resolve this issue. But, in the course of doing this, we have sought to contribute where we can, to be a searchlight for highlighting weaknesses and deficits, suggesting possibilities where we may find new solutions to policy inadequacies and policy failures. So I want to discuss in brief a few of those policy suggestions that we have made in order to give you a sense of the fact that we have tried to contribute out of, as I say, a limited stock of resources.

The first thing that we have tried to do and to challenge is the whole notion of sustainability. We have had discussion about the HIPC initiative which the Jubilee movement, which includes many NGOs, was pleased to see but the issue of sustainability is problematic because the question is what are we actually defining as sustainable? It seems from the outcomes of the HIPC initiative up to this point that the project has been about making the HIPC countries more sustainable in terms of their capacity to repay so it has actually been from a creditor perspective a financial or repayment sustainability. It has continued to be a huge burden. In fact, the benefits have been very marginal to countries. The very few countries that actually gained any benefit had very little benefit at all.

We have suggested some alternative frameworks for sustainability and at the core of that is to actually argue the case that basic needs must come first. Human development, education, social development and health must come first in terms of the community's capacity to pay. Studies have been done and injected into the international debate. One of those looked at the fact of trying to meet the OECD DAC goals for reducing poverty by half by 2015. It was looking at taking portions of the revenue of countries that have to be placed first then looking at what is the remaining capacity to pay. The outcome of that study was that 48 of the 52 Jubilee 2000 countries are not able to meet, even if they used all their current revenue stream, what is expected by the OECD, UNTAD, UNDP and so forth to be basic expenditure to arrive at the goals of reducing poverty by half in 2015. In fact, we need to allow all that resource to flow into development processes and provide extra overseas development assistance as well.

One of the issues about sustainability that I want to touch on very briefly, of course, is the whole issue of the trade surplus. Where are they going to get the money from? One of the things that a study showed last year in 1998 was that for many of these countries their trade surplus or their earnings—as shown in the ratios earlier on—are not adequate to actually fund their debt responsibilities. What is interesting to note in something that Professor Remenyi alluded to was that the 1950s agreement with Germany actually had a clause that said that the low ratio that the international community accepted they should pay should only flow out of earnings from trade. If we insisted that these countries only pay a proportion out of trade earnings then there would be that incentive for us to ensure that they are effective members of the international trade community, that they are not marginalised and that they are brought in, which is what needs to happen.

Jubilee 2000 does not see debt cancellation as the end goal. That is not our end goal. Our end goal is poverty reduction, economic development and economic growth that brings benefits to ordinary people in developing countries. It so often has amazed all of us here who are working on Jubilee 2000 that people so simply perceive that Jubilee is fixated about debt cancellation. Of course, we are concerned about that but only because of our passionate concern for justice, economic growth and providing real, tangible opportunities for ordinary people like you and me in developing countries.

One of the things we have done in order to facilitate knowledge and discussion is to actually host a range of events. We have hosted or helped cosponsor a seminar with RMIT University, Melbourne. Back in April, we asked the committee to hold this seminar and we were very pleased to be able to participate because we believe that we can learn from debate. We have not shrunk from debate and questioning. We want to grow in that process, expand our knowledge and understanding and our commitment to see a resolution. We do not believe we have all the answers. We believe we are on a journey to get those answers but we are determined to get there. That is our determination and we would like to be able to share with you all that determination to find a resolution.

One of the things that we have done is bring Dr Will Kaberuka, the economic adviser to the President of Uganda, to Australia earlier this year. I want to highlight a few lessons. Unfortunately, we could not hold an event big enough at that time but there were a number of key lessons. It is interesting that he was able to come from Uganda. Why? Because Uganda is a bit of a darling of the World Bank, the International Monetary Fund and the mainstream economic profession because of their responsible economic management. They are seen as being responsible economic managers. They are also seen by UN agencies and NGOs as being genuine about working towards real proposals and policies that bring benefits to real people and real poverty alleviation—governing, not perfectly, but in the main with the interests of the common people in mind. This has recently been affirmed in a UN Economic Commission on Africa meeting in Addis Ababa in which that commission conference highlighted the role of Uganda as a role model in actually resolving some of these issues.

Just very quickly, what are some of the lessons to be learned from Uganda? One of those is that they have struggled with the issue of repudiation of the debt—just outright cancelling of the debt. In many ways they would have liked to have done that but they found that the punishment that they would receive and the punishment that other nations like Tanzania, a neighbour, had received during the 1980s was far too great to actually go down that course without a lot of international support. They desperately tried to avoid being trapped within an IMF structural adjustment program but in the end they had to participate in that program.

One of the other aspects is that they have been able to develop a poverty action fund and channel money into poverty alleviation programs which are seen as a bit of a model for other countries. They have taken steps for civil society and for parliamentarians to be able to exercise a role in monitoring, scrutinising and managing, if you like, the international financial and internal financial processes of Uganda. They were able to negotiate to receive aid for that purpose.

One of the outcomes of that is that there is now quite an engaged NGO sector which is able to engage at a good knowledgeable level with that process and a high level of scrutiny by parliament. There are a number of processes in terms of regular audits of projects and a range of institutional factors that are now in place to manage debt. There are now debt proposals by administrators that are regularly cancelled, stopped or modified by the negotiation processes with civil society and parliament.

That leads to another point that Jubilee has been very strong about. We have seen that it is very important that civil society is involved in the whole process of conditionality. As I have said, we believe in the role of ordinary people to be able to be involved in the process of actually managing what has happened. One of the tragedies is that many of the debts, as Professor Remenyi has alluded to, were developed under a whole range of difficult, unjust, abusive and corrupt practices. So we now have people, such as those in Uganda, responsible for paying back the debts of people in governments they had no say in. The citizens had no say and they are now held accountable.

One of the things that we have suggested is that there should be a new system such as a new institutional mechanism for debt cancellation. This would involve a mechanism in which an arbitration process, which is independent, is set up between creditors and debtors which allows for transparent negotiations and which insists on the participation and consultation with representatives of civil society to increase the likelihood that benefits will flow into good development. 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.

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. It raises the issue of shared responsibility of indebtedness, and I think Professor Remenyi highlighted this shared responsibility. It is also an important point to highlight that the 1989 JSCFADT report concluded that it was irresponsible lending practices as much as anything else that have contributed to the debt crisis. I want to hammer home that point that it is still a shared responsibility. One of the Jubilee's points is about shared responsibility of both creditors and debtors, though the balance of this depends on a case-by-case basis.

We have argued that there is an analogy to be made here between bankruptcy and our own community's institutional frameworks reflecting a civilised community's concerns about rights and humanitarian interests. We heard from the floor the importance of institutional frameworks and the argument that we need these to create a civil society. We have heard that George Soros, the great capitalist, has talked about the need for a process to civilise capitalism. We have developed bankruptcy laws as a procedure to ensure that the suffering that results from bankruptcy—for whatever reason people become bankrupt—is limited, minimised, controlled and people are protected. There are no such institutional arrangements for debtor countries. We have argued—and there have been some papers presented by academics that are in relationship with Jubilee on this issue—for the development of a bankruptcy mechanism. I believe my colleague Philip Newman will say a bit more about it this afternoon.

I want to pick up the issue of odious debt. 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. For example, imagine being told that you have to pay money back that was used to oppress you, to abuse your human rights.

We have argued that these sorts of debts should not have to be the responsibility of those communities; that they are, in fact, unjust and odious. Jubilee 2000 has produced a couple of papers on odious debts, one of which is called 'Dictators and debt'. In that paper, the history of the concept of odious debt is sketched out. It goes back as long ago as the late 1900s when the concept was first developed that sovereign nations are not responsible for debts incurred by previous governments, if the debts were on the grounds of oppression and imposition of abuse of those communities.

In 1982, at the height of lending to apartheid South Africa, lawyers in the United States wrote an article in the *University of Illinois Law Review* warning the US banking community that, in their opinion, they were engaging in risky banking practices because the future South African government could not be held responsible for repaying loans that the US banking community was then making to the white apartheid South African government.

And as recently as last year, the British House of Commons international development committee, whose report may be of interest to the committee, concluded that the bulk of Rwanda's external debt was incurred by a genocidal regime which preceded the current regime and that therefore there is a very good case that the current population and government of Rwanda should not have to repay, in the report's own words, 'these odious debts.' This concept of odious debt is one we have sought to develop and put on the international table as an issue of justice. We would support Helen Hughes' concept of being able to just repudiate those components of the debt which have come about because of corruption and injustice and complicit lending by Western banks and Western governments.

CHAIR—Mr Hill, could you bring it to a close please.

Mr HILL—Yes. I want to make a couple of comments. One is that while we welcome the latest developments out of Cologne—and there are positive signs in terms of the increase in the proposed funding, although we are yet to see where that money is going to come from, and the technical improvements in terms of timing and eligibility—we remain concerned that much more needs to be done, that this will only marginally change the situation. According to Jubilee estimates, only a small number of countries will receive something like half to a third of a decrease in their current levels of debt servicing, which is already too onerous.

Finally, we would like to see the Australian government take a very proactive stance. We are pleased to hear that Australia is supporting the HIPC reform process, but we would like that to be extended to actually find genuine and deep resolutions of those issues. We would like the Australian government to support the implementation of the G7 finance ministers' call for much greater transparency, openness and reform of the IMF institution; to support adequate funding for new initiatives, not have it come out of our aid budget; to support the sale and use of the IMF gold reserves in an effective way to reduce debt servicing and therefore facilitate poverty reduction; to actually look at the issue within our aid budget of actually taking up from the experience of Uganda and developing capacity building within civil society and parliaments and so forth to develop the capacity for them to act as a check and a monitor on the process of indebtedness and economic management; to cancel the piddling amount of outstanding bilateral debt we have which, given our current surplus and the wealth of our nation, is a very small amount; and, particularly for this committee, to look at expanding the work of parliament on this issue as it is a huge issue that needs to be discussed.

Ten years ago the committee engaged in a lengthy process for over 18 months involving submissions and contemplation. I know that was a large task but it is a huge issue that demands our attention now. Maybe more can be done to build on the work of this seminar today which, as I say, we appreciate. Thank you.

CHAIR—Thank you very much. Ladies and gentlemen, I am conscious of the time. We will only have time at this stage for, at the most, two questions, depending on how long the first one is. Are there any questions?

Senator SCHACHT—I want to put to Mr Pearl from Treasury the suggestion from Helen Hughes that instead of debt forgiveness they just repudiate the debt. Mr Hill also suggested that in part he agreed with Helen Hughes, that the bad debts, the odious debts, be repudiated. I think Helen Hughes's point was that this would also punish the agencies that were complicit in all these bad debts and that it may be the shock treatment needed, rather than try, through debt forgiveness, to allow these agencies to get off almost scot-free for their complicity in all these bad loans.

I have to say, in view of the committee's report 10 years ago and the things I raised earlier, this does have some real attraction for me. Mr Pearl, in all the discussions you have had informally—it seems to be only informally that these discussions take place, never formally—could you tell me whether Treasury has a view on whether there is a difference between the consequences of debt repudiation and debt forgiveness, and which one do you favour, other than the one that tries to save the jobs of Treasury officials who work in these agencies?

Mr PEARL—Thank you for your question, Senator Schacht. It is a challenging one.

Senator SCHACHT—I do not want a challenge, I want the answer.

Mr PEARL—Can I try to provide an answer? The Treasury view, and the views of AusAID and other Australian agencies, is that we support the HIPC initiative as the first best mechanism to manage and bring down debt for the poorest countries to a sustainable level.

Prof. HUGHES—Why? It is a nonsense proposal.

CHAIR—I think you are putting Mr Pearl in a position where, if you want a further response, he will have to get a response from the appropriate minister.

Mr PEARL—I am outlining the government’s current position. There is a public debate going on here. There are representations—

Senator SCHACHT—Is this the government’s formal position you are now outlining?

Mr PEARL—That we support the HIPC program, yes.

Senator SCHACHT—And all the other agencies you have just mentioned have formally agreed to that position?

Mr PEARL—It is a single whole-of-government position, yes, Senator.

Senator SCHACHT—Has the debt repudiation issue been raised or discussed in all of these holistic government discussions?

Prof. HUGHES—No. You can have the long answer or you can have the short answer. The short answer is no.

Senator SCHACHT—Even for odious debt?

CHAIR—Senator Schacht, I am not going to have a debate. We are having questions and there are other people here who have indicated that they want to ask questions.

Senator SCHACHT—I am sure they would like to know the answer to this.

CHAIR—That was your third question in a row.

Mr PEARL—We support the HIPC initiative and the way it is tackling the problem.

CHAIR—Thank you. We are going to stop for lunch after this second question. There will be time for questions later.

Dr ETHERINGTON—I am from Canberra. Helen, I would like to address a question to you. The implication of your generalisations of massive corruption by HIPC leaders, with unreasonably heavy military expenditure, would suggest that you would have supported the reparations imposed on Germany in the Versailles Treaty following World War I and would have strongly opposed the significant reduction of Germany’s debt obligations under the London debt agreement in 1953. Do—

Prof. HUGHES—The answer to that is short. Versailles was obviously silly. All the professional commentary on Versailles was that it was a very stupid arrangement and it led to a lot of trouble.

The difference in 1954 was that Germany had a government that was dead keen on growth. The reason that the Marshall Plan and all these things worked was that government had the institutions, it had the skills, and it had the policies. So, having got all these ducks in a row, the US government said, ‘Right. Let’s make sure they have the capital.’ And everybody knows that that was one of the miracle growth countries after the war. So what idiot would not have supported that? That is exactly what we are saying should be done now. You have to know a lot of history before you can use selected bits of it.

That is exactly what we are saying now. If Brett had said, ‘Let us assume that in addition to forgiving debt, all these countries are going to change their government and they are going to go much further than Uganda,’ his projections would be right. Uganda is not squeaky clean although the IMF and the World Bank says so. The reason they did not repudiate is that too many people in Uganda had their hands in the till, as the colloquialism goes.

If Brett had said, ‘Right, we’re going to forgive the debt. The countries are going to assure us that their policies are radically changed. They are going to go after education and health like the Asian countries did in the 1950s and they have in place commercial law, civil law, et cetera, that will ensure that entrepreneurs can go and entrepreneur’, his projections would be right. All I am saying is that he missed out the most important assumptions in his black box. I think any country that really gets going and does not have its hand in the till will repudiate. It’s not a problem.

People around here are throwing Jeff Sachs’ name around. Jeff Sachs is the architect of the Bolivian ‘miracle’. Right? It’s growth backwards. There are a lot of private consultants such as the HIID, the Harvard group, and the Bank and the Fund, that are deeply implicated in these failures. There was a very good suggestion in *Forbes* magazine the other day that these people should all be paid in the currency of the country they advised!

CHAIR—That is a very good note on which to call a luncheon adjournment.

Proceedings suspended from 1.06 p.m. to 2.05 p.m.

CHAIR—It gives me particular pleasure to welcome the Acting High Commissioner for the Federal Republic of Nigeria, Mr Adegboyega Christopher Ariyo. We are very pleased that you can be with us today and we look forward to you addressing us on Nigeria’s position in relation to debt relief.

Mr ARIYO—Let me start by paying due respect to the institution that gave birth to this very crucial committee. The Australian democratic institution of the federal parliament is acknowledged and praised for the credible work it is doing to advance the cause of justice, fair play, hard work, law and order and a fair go in the political, social and economic management of the Commonwealth of Australia.

I must thank the chairman and members of the parliament of Australia’s Joint Standing Committee on Foreign Affairs, Defence and Trade for this unique opportunity for Nigeria to make the case directly to Australian representatives on an issue which is very crucial to the full sustenance of the nascent democracy in Nigeria. I should say from the outset that considerable and positive resolution of this program would be to the mutual benefit of Nigerians and, by implication, Africans and the rest of the world. I appreciate this invitation to address you.

The following is a statement of the problem. Nigeria is one of the least developed countries of the world. With a population of 120 million people, it is expected that she would have great need for development. But as the resources to carry out these developments are scarce, she has had to rely on injections of foreign capital in the form of loans from various sources, in the belief that this will serve as a stimulus for her economic greatness. However, this aspiration has not been met. The various loans acquired by the country are now negating the very essence for which they were taken. A combination of factors ranging from mismanagement, fraud on the part of some officials entrusted with the management of these resources, dwindling incomes from exports, et cetera have contributed in no small measure to this situation. What has emerged is that the country is overburdened by these accumulated debts, which at present stand at $US28.8 billion. It is not surprising that Nigeria made a list of the heavily indebted poor countries, HIPCs, prepared by the United Nations Development Program.

If Nigeria is asked to pay this debt, the very elementary implication of this will be that government programs on health, education and infrastructural development will have to be put in abeyance for some years. The implication of such a move for our fledging democracy can well be imagined. Thus, our plea for debt cancellation or debt forgiveness is predicated on our belief that it would give us a clean slate with which to start a second attempt at nation-building with all its ramifications.

The nature and causes of the Nigerian debt are as follows. The main cause of the current suffocating $US28.8 billion Nigerian debt could be stated as misappropriation of credit for development purposes and corruption involving Nigerian public officials under the past military regimes and in some cases, wittingly and unwittingly, the creditors. In most cases, the conditions for drawing the credit—which ought to have been strictly adhered to by the credit-releasing authorities—would appear not to have been observed. The projects and programs they released money for were not properly monitored. This conclusion is valid and sustained by virtue of the fact that we are here today discussing business ventures that should have generated returns to repay the injected capital.

I crave the indulgence of this esteemed committee to refer to my President's speech at the recently concluded OAU summit at Algiers:

> It should be pointed out that portions of these debts are of dubious origin and their continued existence on the books begs moral questions. To illustrate, there is a case in my country where a state government secured a loan of 8 million US dollars to build a carpet factory on turnkey basis. The loan was fully drawn. The site for the factory was never cleared. The money never came to Nigeria.

In some cases, most of the commercial credits led to the importation of containers filled with stones and other rubbish. These were discovered at the Nigerian ports after money had been drawn on credits opened on behalf of my country. Also, substandard goods, equipment and machinery were brought to Nigeria. The payments made were for the price of new ones. These goods, equipment and machinery could not have contributed to the economy what was expected of them because they were already useless before they were given a glossy look to deceive the Nigerian importer. It must be stated that the Nigerian importer may be the initiator of this dastardly act. However, it takes similar minds to carry out this type of nefarious activity.

There is a saying in Nigeria that a thief may not embark on stealing if he knows that there is no place to hide his loot. Poor and autocratic leaders under military regimes perpetrated corrupt activities by engaging in inflated contracts and overinvoicing. In many cases, the leaders just looted the Treasury with impunity, and they hid the money not in Nigeria but in Western banks.

From the above it is quite clear that most of the credits that are now on the books as Nigerian debt stocks were never used as injected capital to aid regenerative economic growth and development in Nigeria. It should, therefore, not be surprising that we are unable to pay the capital. In the process of managing repayment of the capital and the interest, the debt snowballed into the present unbearable figure. The Nigerian debt could be classified as trade debt—that is, bilateral and multilateral debts through the Paris Club and commercial debts from banks—and debt to multinational institutions, that is, the IMF and the World Bank. The spurious nature of the Nigerian debt was discussed previously. My head of state graphically depicted the scope of Nigerian debt at the Algiers summit mentioned previously. The President stated:

In 1980, the debt of Sub-Sahara Africa amounted to US$60.96 billion. By 1997 it had risen to US$219 billion, not because of heavy additional lending but because of the inability of many countries to service their debt and as a consequence had to capitalize the unpaid service charges and add them to the stock of debt. Today, every man, woman or child owes 357 US dollars!

It was very interesting when one of the presenters said that, if foreign debt dollars from each of the OECD countries were set aside to pay this debt, we would not be here talking about this problem. The President continued:

To redeem this per capita debt burden, the millions whose per capita is a mere 100 US dollars will have to give up everything in life—go into suspended animation, perhaps—for over three and a half years.

The actual credit to Nigeria is far less than the current staggering debt figure. Interest not paid and interest accruing on paid debt service became new debt. Thus, despite the imposition in 1994 of an embargo on contracting new debt—as well as the low level of disbursements from existing commitments and ongoing debt conversions and buybacks—the outstanding stock of external debt has failed to decline. At the end of 1998, the stock of debt disbursed and outstanding stood at an estimated US$28.8 billion and of this, some US$17.7 billion represented arrears, almost entirely to Paris Club creditors. The latter included some US$1.3 billion overdue payments on loans contracted after October 1, 1985, the cutoff date to be eligible for rescheduling that was established in the first of Nigeria's three past Paris Club reschedulings.

The point has to be made quite clearly that in 1985 we had a military regime in Nigeria. At that time, the government that was there between 1983 and 1984 refused to collaborate with the IMF. They said that they were not going to take IMF loans or anything: they were going to stay on their own and would manage the economy. The structural loans program was recommended to us—but the people of Nigeria said no. But after that time, new rules were made by the new government and approved by the international community and the IMF.

I need not say any more on the scope of debt to this august committee. The problem calls for sympathetic understanding. With respect to globalisation and developing nations' debt, the debt burden has incapacitated the ability of developing countries to participate in the mainstream of world economic activity. For us in Africa, and particularly in Nigeria, it has been very painful. Apart from the debt burden, we have not fared better in the new globalisation deal.

The beauty of globalisation from our own lens is that it will help to release the creative capacities of all the six billion people throughout the world, using their collective wisdom, energy, experience and goodwill to make the world better at less cost for this generation and subsequent generations.

However, the debt burden is a great inhibition on Nigerians' ability to effectively participate in this global scheme. The debt burden has reduced the available Nigerian resources to energise her economy. It has reduced Nigeria's capacity to develop our latent resources. It has not allowed Nigeria to reward the labour of her people, thus stunting their growth and development. The negative impact of this on the political and social stability of many African countries is better imagined.

Further compounding our problem is the continuous depreciation of the rewards for the contribution of the developing countries to the sustenance of the world economy. It may seem an old argument. I am referring here to the Nobel Prize winning economist Professor Lewis, who characterised the disparity between products of developing countries and those of developed countries. I made the argument that there is no fair reward in the process of the result of labour for these two sets of people.

For example, in Nigeria in 1976, a graduate's salary could buy a Toyota Corona car. Today, as we speak, no Nigerian public servant can afford any car on his or her annual salary. In those days, too, 10 bags of cocoa or groundnut were enough to buy a car. The question is: has the value of these products depreciated? How do we explain the very wide gap between the pecuniary reward for labour in the developed world and that of the developing world? Are the very poor pecuniary rewards for both labour and goods produced by the developing countries not adversely affecting their purchasing power and thereby shrinking the productive capabilities of both developed and developing countries?

I wish to draw the attention of this respected committee to something said by the Deputy Director of Research for the IMF, Flemming Larsen, in June 1999, on the implication of the Asian crisis. Larsen asked the question: is there any link between high unemployment in Europe and the Asian crisis? He submitted that there was. He acknowledged 'transmission of economic disturbances'—that is, problems—'through trade flows and commodity prices'.

One wonders whether the passive neglect of 600 million Africans and their gross economic poverty have not contributed to the problems of developed countries' labour markets. For us in Nigeria, in the 1960s and 1970s, the volume of goods imported from the rest of the world was very large. Many Nigerians could buy some goods or services that were not produced in Nigeria. The number of Nigerians that can now afford to buy imported goods and services has shrunk considerably. Nigeria is No. 146 in the Human Development Report for 1999. She is among the countries with low human development.

What should be done? To correct this situation, apart from debt cancellation, wealth generating programs such as education, health, water, electricity, telecommunications, and transportation facilities—that is, a good network of roads, railways, airways and waterways—

require a great infusion of capital and, above all, good management within a democratic dispensation.

With respect to poverty alleviation and peace development, Michel Camdessus, the Managing Director of the IMF in Geneva, on 5 July 1999, suggested that the crucial problems facing the world in the next millennium are poverty alleviation and how to serve peace. To him, peace means development, because if there is no peace, he believes that there will be no development.

Camdessus argued that the key to addressing poverty alleviation lies in high quality growth. For us in Nigeria, the key to solving the problems of poverty would be high quality development. I happen to believe that there is a world of difference between growth and development. One is a subset of the other. There could be growth, but there could be no development. But one side of development is growth. This has to be taken into consideration. I know that those economists who look at a credit and debit prism in analysing the economic situation will not agree. But it has to be said that if there is economic development without social and political development, we will be chasing shadows.

Such favourable development would make the country be at peace with itself and with all nations in the world. To achieve the growth that the Managing Director of the IMF wants, he saw investment in human resources, especially education, health and infrastructure, as very imperative. We agree with him because, as he stated further, this will boost the ‘productive capacity of the country’.

With respect to essential foundations for foreign investment in Nigeria, we have also embarked on putting in place the essential foundations of the environment for investment in Nigeria since 9 June 1999. The big political, social and economic tapestry on which Nigeria has agreed to order her national endeavour is democratic practice. To this end, as all the respected committee members are aware, we had one man, one vote elections in three successive stages. The governments at the local, state and federal levels were elected between 5 December 1998 and 27 February 1999. 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.

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. The civil service is being reorganised with the objective of revitalising it and making it more responsive in executing the new agenda of government. The political landscape is also being constructed in such a way that all the cries of marginalisation that had a destabilising effect on the polity in the past will be a thing of the past. Respected committee members, it takes a little while to destroy. The process of reconstruction is always tedious, especially when human beings are the critical actors that determine the pace, shape and objective of such development.

With respect to the geopolitically imposed burden on Nigeria, the burden of Nigeria's development is very heavy. Our friends know this very well. Much is also at stake. Developments in Nigeria usually affect all the countries of west, central and southern Africa. The investment of about $US3 billion in Liberia and Sierra Leone for political stability in the west African region is indicative of the burden on Nigeria. Similar expense, although of lesser magnitude, was incurred on Chad between 1978 and 1981. Nigeria has played a crucial role in ensuring fairness and justice in the world. Nigeria played a crucial role in the resolution of southern Africa's political problems. Nigeria paid a heavy economic price.

We want to thank the people and government of Australia for their support in the past. We want also to look at this period of our history and see that you have stood by us as the friends we believe you are.

I turn to the key issues to solve the Nigerian debt problem. The key issues that we wish the international community to address include raising the income for farmers and women through correct market prices for goods and services. There must be an appropriate balance between the producers of primary products and the producers of manufactured goods. Developed countries must see the economic imperative in the opening of their markets for the exports of developing countries. Transparency in economic relationships should be inter and intra nations, and there must be outright debt forgiveness or cancellation.

For us in sub-Saharan Africa, our total debt in 1997 is about $US219 billion. This is not up to three per cent of the total annual defence budget of the OECD countries. The shackles of unfair debts should be removed so a level field could be established for all to participate in the glorious economic era of the next millennium. There is relative peace in the world. We urge the creditor nations and corporate personalities to bring peace and smiles to the hungry, fatherless children, the homeless people, those that are dying because there are no simple medicaments, those who are consigned to intellectual deprivation and therefore social, economic and political slavery because just 0.001 per cent of their national population has robbed them of their future through greed and selfishness. Those who did not benefit from the debts are the people who are being made to sweat and suffer to pay. The current flow of humane consideration in the conduct of world affairs must not stop until this unfair debt is cancelled. The Australian icon spirit of 'fair go' should see this through.

The managing director of the IMF argued that debt relief is very crucial for poverty alleviation and human resources development in the heavily indebted poor countries. Nigeria is one of the heavily indebted poor countries and she is determined to channel all resources that will be freed as a result of debt cancellation to the development of human resources and economic programs that will increase the purchasing powers as well as the productive capabilities of her population. This position of my government is already shown in the supplementary budget before the National Assembly of the Federal Republic of Nigeria for consideration. Education, health, infrastructure facilities and law and order have been given prominence.

You are on the right track: many well-meaning legislative houses have started necessary measures like what you are doing today to address the debt relief issues. We believe that this esteemed committee will follow its tradition of justice, fairness and thoroughness and will reach conclusions that will strengthen and broaden the resolves of those who have already agreed that Nigeria and other heavily indebted poor countries should benefit from debt relief through debt cancellation. The magic wand of Australian diplomacy that has seen many successes should be caused to pursue the objective of debt cancellation.

We salute the government and people of the United States of America for the leadership role they are playing in ensuring that Nigeria and other heavily indebted poor countries are given debt relief. With particular reference to Nigeria, the United States government has taken some emulative measures in support of the fledgling Nigerian democracy. It recognised, quite correctly, that debt relief alone will not be sufficient to unburden Nigeria. She has encouraged active involvement of her business community to invest in Nigeria's energy, rural technology, auto, cement, finance and industrial sectors.

President Chirac of France has been to Nigeria to show support for Nigerian democracy and economic development. During his visit in July to Nigeria he indicated the readiness of France to engage the Nigerian economy constructively so that Nigerian democracy will not be on an empty stomach. China has not been left behind in support of the Nigerian economy. Her Majesty's United Kingdom, Germany, Italy, Japan and other European countries are deeply involved in our economy too.

Australia's public and private sector establishments should be enjoined by this committee to emulate their counterparts in the OECD. The leadership of Australia in mining, dry land farming, agri-allied activities and telecommunications as well as transportation—that is, air and water—technologies should put Australian concerns in good stead to compete successfully in the emerging Nigerian economic revolution. This is the crucial motion that this august committee is being respectfully requested to activate in order to address the economic problems and debt burden facing my country.

In conclusion, I thank all the respected members of the Joint Standing Committee on Foreign Affairs, Defence and Trade, Jubilee 2000, invited guests, the media and the people of Australia for this immense opportunity and permission to take my seat here. I do hope we shall have cause very soon to celebrate that from this committee of the humane and respected parliament, which prides itself on the spirit of 'fair go', the clarion call for debt relief for Nigeria and other heavily indebted poor countries shall reach every human. Unless this is done, the Uruguay Round of talks and the Cairns Group efforts that gave birth to the fledgling WTO, the policeman of the liberalised and free trade world, and our new democratic beginnings will be meaningless to Nigeria and the other heavily indebted poor countries. I thank you.

CHAIR—Thank you very much, Your Excellency. It now gives me pleasure to welcome Archdeacon Philip Newman, the Director of AngliCORD. Archdeacon Newman will address the seminar on debt relief in Africa and also tell us about AngliCORD's work there.

Archdeacon NEWMAN—Thank you very much indeed. AngliCORD stands for Anglicans Cooperating in Overseas Relief and Development, which is the national overseas aid and development agency for the Anglican Church. It is from that basis that I speak.

Australian church interest in Africa is based on two principles. The first is the issue of justice. Africa has the area of greatest poverty, much of which is externally caused, and contains the world's poorest countries. The second is that much of Africa is Christian, therefore the Australian church has many contacts and colleagues who are Africans—people on the ground and in the villages with whom we are constantly in contact and who want to deal with the issue of justice.

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. It was as a result of this that the concept of jubilee in the Old Testament was incorporated—a time when, every 50 years, things could return to where they were before and those who had lost land or property would have it restored and people could start again. Obviously there is no desire to return to those days or that way of thinking. As has been said by earlier speakers, some debt, controlled, is not only good but essential. But, nevertheless, in the Judaeo-Christian tradition there is a deep suspicion that remains with regard to debt and its relation to justice.

The excesses of the 1980s here in Australia indicated to many in the church that capitalism had bankrupted itself to selfishness, and there was a clear indication that wealth did not percolate to the poor. Clearly, communist principles fared no better. There was and is, in some quarters, a strong move in the church for the development of a third economic way.

The church, unless it is corrupted by too close an association with government of whatever form, has a philosophical commitment to the poor. Political and economic systems are judged not on the wealth created for the wealthy but by the lifestyle of the poor. The church is not opposed to wealth creation, but nor is it inherently in favour of any particular political system. It inherits and lives out the Jewish pre-Christian commitment to the poor, the homeless and the stranger, by which what is right and just are assessed. And so, as has been mentioned earlier, it is not in the interests of the world or of Australia for the further injustice to take place; it is not in the world's interests for the poor to continue and for the disparity between nations to grow.

In turning to the African debt, I would consider that in the light of the principles which I have enunciated. First, then, the ethics of loans and their terms. In the frenzy to lend money, the IMF and World Bank and many wealthy nations were not at all, or inadequately, concerned with what these loans would be used for, as a previous speaker has said, or who they would benefit.

It is manifestly obvious that many dictators and others associated with the government, including the armed forces, benefited greatly. But in many countries the benefit of loans stopped there and several examples of that have been brought before us including that from Professor Hughes who talked of Idi Amin in Uganda. There was almost no care taken to ensure that those who received the loans had the skill and competence to cope with the projects that were sought to be funded or that they were used for that purpose at all and there was little attempt to ensure that there was capacity to fulfil the repayment processes, either in human terms or physical resource.

African societies have tended to exist on the barter system, extended family sharing and self-sufficient households, none of which is able to be taxed. It was not at all clear how the loans that were made to many of these nations could be repaid, let alone the interest that would be required. But, just as the banks which loaned with an almost similar lack of care and responsibility here in Australia in the 1980s consequently had to bear the pain of unpaid and unpayable debt, so it is important that this principle be accepted by lending nations.

The guiding principle for changing the current situation must be concern for the poor. What is really, at last, going to benefit them after 10 years of declining standards, resources and infrastructure? In biblical times, debtors unable to repay their debts became slaves and following that, up until quite recently, debtors could be jailed until their families were able to pay. If they did not have families able to raise the money required, they may never have been released. Debtors prisons only disappeared in recent history. The modern approach to people unable to pay their debts is that they be declared bankrupt, which involves penalties and limitations. However, after a period of time, bankruptcy can be discharged and the person concerned is able to begin again.

The position in many HIPC countries, however, is that they are somewhere between slavery and imprisonment. It approaches slavery because repayment of international debt or even the interest on it and many of the conditions being enforced for the relief of international debt impose financial systems and shape government budgets in ways which alter radically local culture and custom and because the demand for cash crops rather than subsistence farming leaves a farmer without either money or food, for example, and vulnerable to the variations in prices or currency fluctuations. National sovereignty is hard enough to maintain in Africa without the imposition of an impossible burden of interest and debt repayment. Governments are unable to fulfil the most basic requirements of their people and are, therefore, subject to instability and extremism. Often good governments are the most vulnerable. It approaches imprisonment because there is no way out, no freedom to move and no end in sight for they have no families able to repay their debt and enable them to go free. The government's freedom of choice to improve the condition of their people and to fulfil their basic hopes is simply not possible unless there is real debt relief, unless a way can be found to develop the equivalent to an undischarged bankruptcy which still leaves the country with the possibility of reinstating basic infrastructure while remaining under international financial scrutiny to whom there is accountability.

You have heard the statistics which, in the end, become largely meaningless because we cannot relate to them. They are beyond what we can comprehend. Just one example, however, from a country with which we are heavily involved, Rwanda, and where the Australian government, too, has been involved and to which the Australian people gave so generously. The expenditure of 80 per cent of the national budget on interest repayment prevents postwar infrastructure restoration, greatly hinders the reconciliation process and severely limits normal development.

This is a country which surely fits into Professor Hughes's category of ones which have publicly changed direction and therefore should be, under her terms, eligible for forgiveness but there is no real sign of it yet. Nigeria too would fit somewhere in that category. In passing, it was a little distressing to hear Uganda referred to as not being perfect. I am not sure which countries would classify under that heading; nevertheless, we are prone to judge them from a variety of standing points.

Banks, of course, have on the whole written off as bad debts many of their loans to African countries but international lending institutions have not. The Cologne initiative, while very welcome, is too little, too restrictive and too late. I would have to say at this point that it seems to me that there is not a vast difference between debt forgiveness and debt repudiation. Both of them are a way of dealing with a problem which has no other solution but the process of debt repudiation surely is a difficult and dangerous one because the results are clearly unknown. The debt repudiations which took place in South America in the fifties presented a very difficult picture for those countries and a degree of isolation which was not helpful for them and which delayed their recovery significantly. 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 like debt forgiveness.

I do not think that this at least provides a great difference but it is a matter of process. What is sought by the church is that the same opportunities be given to nations as are given to people—a way out when repayment is impossible—but, under similar conditions as apply to undischarged bankrupts, debtor nations must have some restrictions placed upon them in terms of their freedom to use the forgiven debt appropriately.

Last year at their once a decade meeting the bishops from around the Anglican communion met together. The largest number of them are from Africa and they passed the following resolutions which I thought I would read to you as being appropriate to our consideration today. They came under three headings. Firstly, they passed a resolution to the countries and people of the creditor nations which called on them to accept equal dignity for debtor nations in negotiations over loan agreements and debt relief and not to follow the line of paternalism or imperialism of which Professor Hughes has spoken.

The countries were called on to ensure that the legislatures of lender nations are given the power to scrutinise taxpayer subsidised loans and to devise methods of regular legislative scrutiny that hold to account government financed creditors, including the multinational financial institutions, for lending decisions. They were called on to introduce into the design of international financial systems mechanisms that will impose discipline on lenders, introducing accountability for bad lending and challenge corruption effectively, thus preventing future occurrence of debt crises and to introduce measures that will enable debtor nations to trade fairly with creditor nations. Fair trade will allow debtor nations to develop their domestic economies. This in turn will allow them to pay those debts which remain and to take their rightful place in the community of nations. The countries were called on to ensure that each of the OECD nations honour their commitment to set aside 0.07 per cent of their GNP for international development.

They called on the political leaders and people of debtor nations to accept independent, fair and transparent procedures for agreeing debt relief; to adopt much greater transparency and accountability in the process of accepting and agreeing new loans—particularly as the burden of repayment of these loans will fall largely on the poorest—ensuring proper scrutiny by legislative bodies of each loan contract signed by government ministers; to adopt measures for disciplining elected and paid government officials who corruptly divert public funds; to provide for sanctions against private sectors, private sector persons and bodies who act corruptly; to adopt measures for ensuring that additional resources generated from debt relief are allocated to projects which genuinely benefit the poorer sections of society.

They had a third section, which called on the political leaders and finance ministers in both creditor and debtor nations to develop, in a spirit of partnership, a new, independent, open and transparent forum for negotiation and agreement of debt relief for highly indebted nations. In particular, it called on them to cooperate with the UN on the establishment of a mediation council whose purpose would be to respond to appeals from debtor nations unable to service their debts, except at great human cost; to identify those debts that are odious and therefore not to be considered as debts; to assess independently and fairly the assets and liabilities of indebted nations; to determine the debt repayments are set at levels which prioritise basic human development needs over the demands of creditors; to hold to account those in authority in borrowing countries for the way in which loans have been spent; to hold to account those in authority in lending nations for the nature of their lending decisions; to demand repayment of public funds corruptly diverted to private accounts; to consult widely over local development needs and a country's capacity to pay; and to ensure, through public monitoring and evaluation, that any additional resources made available for debt relief are allocated to projects that genuinely benefit the poor.

The connection between churches here and those in Africa has enabled us to monitor closely the deterioration over the last few years of every measurable aspect of life, not simply statistically, but from personal experience. At a time when the AIDS epidemic is wreaking havoc in most African countries, health services are still contracting and education is deteriorating along with the judiciary, the condition of prisoners, roads, postal and telegraph services and just about everything else which depends on government support. These connections between Australia and Africa offer a source of hope. For, alongside debt forgiveness, is the need to support NGOs—here and in other countries—so that they may empower the grassroots in poor countries to bring about change.

It is clearly not feasible or realistic to depend upon a trickle-down concept to provide people with wealth or governments with resource to do all that is needed to overcome poverty. In many cases, it will only be through NGOs with links to grassroots that a real difference can be made, as communities own and take part in development. This partnership must be maintained. Just as Australia must use its influence to continue debt relief, so the resources made available to NGOs must not diminish; rather they should increase. Events elsewhere—in Eastern Europe, the Middle East and on our doorstep—currently attract the media headlines. But to turn away from Africa—from the world's poorest people and countries—will ensure that Africa returns to the headlines as frustration builds. For NGOs to leave the HIP countries, even where there is mismanagement, is no answer. They provide the main way in which people can take responsibility for their own development and, alongside international debt relief, ensure that the new millennium will offer some new hope where that is in short supply. Thank you.

CHAIR—We now have some time set aside for questions in relation to session 5, debt relief in Africa. Do I have any questions?

Prof. HUGHES—I have a question on Nigeria, and I would like John to put up a table I have on Nigeria.

Overhead transparencies were then shown—

Prof. HUGHES—Nigeria did not start deteriorating in 1985; that started in the early 1970s when the government started to subsidise rice for the urban middle class at the cost of the farm sector. The first point of this table is that Indonesia—like Nigeria, which is an oil-rich country—used not to be much wealthier than Nigeria. Indonesia had a lower per capita income—it certainly had a lower endowment of skilled or trained people and the Dutch left it in a terrible mess—yet, between about 1970 and 1999, while Nigerian per capita income has been just about static, Indonesian per capita income, in spite of all the problems of crony capitalism, et cetera, has reached well over $1,000 a head. I do not believe that there has been a change of policy in Nigeria. There has been this policy problem. The second point is that I do not believe there has been any change in policy in Nigeria. One of the pieces of paper handed out is the industry policy of Nigeria. It is on classical, corrupt industry policy lines which would create, and have created, corruption throughout the economy. Nothing has changed.

The third point is that, if Nigeria had seriously reformed—like many other African countries—it would have done what we did in Australia a few years ago. We cut down the number of embassies we had so that we would not spend so much money on our representation overseas and could spend more money on schools and education. How can a poor country like Nigeria possibly justify the existence of an embassy in Australia? That is my third question.

CHAIR—Mr Ariyo, do you wish to answer?

Mr ARIYO—Yes.

CHAIR—I thought you might wish to respond.

Mr ARIYO—I will start with the last question, which Professor Hughes has just raised. If we did not have representation here, I would not be here to make the voice of my country heard in this committee. That is one reason why we are here. In Australia we have well over 3,000 Nigerians. Australia has a lot of technology and a lot of things which we require for our development. You have a population of 19 million and you are present in Nigeria. We have a population of 120 million people, so I think we should be here for this purpose.

Looking at the problems you raised in respect of government policies in the 1970s, we did not have problems then—we had money. If you go through the records and look at the situation of things, the international community always supported our funding programs in Africa, and we did not have problems. But what happened as a result of the oil crisis was that the price of oil depreciated. By about 1980 or 1982 the naira in Nigeria was worth $1.62, and that was when we took the loan. Now a dollar in Nigeria will fetch 100 naira. My salary in 1976 would have been about $500 a month. Today my salary, converted to dollars, would be about $50. Are you telling me that my productivity has depreciated?

Prof. HUGHES—I am telling you that, in terms of purchasing power parity, these are meaningless figures.

Mr ARIYO—No, they are not.

Prof. HUGHES—Because what is important is what you can buy in Nigeria, not what you can buy here.

Mr ARIYO—Why?

Prof. HUGHES—That is how the world works.

Mr ARIYO—That is the point I wanted to make and that I wanted Professor Hughes to note. We cannot look at the presentations of accountants, balancing figures, and think the world will move. It has not moved; it has not operated like that before and it will continue not to operate in that way. Most of the problems we have in the world today are as a result of this narrow conceptualisation of issues. The affairs between nations are more than a question of balancing figures.

I am so happy that the question of what happened during the First World War and the development of Europe was raised. We would not have had the Second World War if Germany had been treated fairly immediately after the First World War. The situation the Germans found themselves in gave Hitler room to whip up the emotion of the people, to rally them around him, to say to them that the situation that the war had imposed on them was unfair and that they had to fight back. They rose up against this and created a problem for the world. What we are saying is that, if the poor people of the world are not given a fair chance, there are other avenues for them but they are not going to be very peaceful for everybody.

We need that spirit of goodwill that is going through the world to also visit our debt problem. If this is not done, it may take us years to get over the debt. And when we get there, things may have changed. Civilisation is never static. Toynbee said that no civilisation has perpetually maintained the course of history in the world; it is always changing. Something happens and the pendulum swings. In the 21st century, we never can tell when something will happen. The pendulum is swinging to Africa and we never can tell what will happen.

In Western countries, or in any human endeavour, there are always a few—bankers and officials of the IMF—who look the other way when a loan is given to governments buying weapons. They know it is to suppress the people who are there. They should own up and face the reality that we need to address this issue. The world is more than balancing credits and debits. It is more than that. There are issues that must be resolved and which cannot be resolved because of this political problem which debt has placed on many of the developing countries, particularly those of us in Africa. There are so many things we cannot do. They say, ‘You are a debtor country. You cannot do that, you are a debtor country.’ You cannot invest in education because you have to service debt. Some countries are paying 46 per cent of their annual budget to service debt. What are you going to survive on? How do you regenerate?

In the first instance, the money did not come to Nigeria. This money is servicing economies in the countries that ought to have released money to come to the developing countries. Is it not the world that sustained people like Mobutu who had $5 billion at his death. Was the world unaware that that money ought not to have been where it was? It ought to have been in Zaire where they should have developed the economy.

Mr HOLLIS—It was not in African banks either.

Mr ARIYO—No, it was not in African banks either. It was in European banks. How do we explain this? How do we justify it? We want peace in the world and we want development to move. We want to create the capacity where everybody is assimilated together: to bring coordination and let everybody enjoy the new millennium. That is the argument. I think in Australia there is the spirit of a 'fair go'—give everybody an equal opportunity—which is the conscience we are appealing to. That is the spirit on which this country is based, and that is the spirit we are addressing. We do believe that the majority of the committee members will see this point we are making and realise that we have a responsibility to humanity. That is the issue. That issue has to be focused on and not be looked at as an issue of credit and debit or from the accountant's economic micro view alone.

Mr HOLLIS—I have not so much a question but a small comment to make. I am sure that Professor Hughes made the comment tongue in cheek in the 1980s that Australia could put more money into education and health by closing a couple of embassies. What this committee has found over many inquiries is that Australia has lost millions and millions of dollars in investment and trade opportunities by having fewer diplomatic and trade missions abroad. Interestingly, of the few embassies we closed in the 1980s, we recently announced that we are re-opening three of them in Denmark, Peru and another somewhere else because we had made a mistake. So we are re-opening embassies that we closed at that time. I am sure you made the comment tongue in cheek, Professor Hughes, because I do not think someone of your academic standing would truly believe that comment you made.

CHAIR—Any further questions?

Prof. HUGHES—I do not believe that bureaucrats have anything to do with trade either.

CHAIR—Did you have a question?

Mr MUSA—I am from the Ahmadiyya Muslim Association of Australia. When we talk about corruption in developing countries and their necessities for life, we have small corruption and big corruption. When we talk about the superpower crime of corruption and the exploitation of the developing countries or the debtor countries, we should look at that sort of thing rather than looking from one side. Another thing on the question of Nigeria is that the Ahmadiyya Muslim organisation, which is not a political organisation, has contributed to Nigeria by building hospitals and schools. We have also supplied doctors and teachers. I think His Excellency of the Nigerian High Commission could not deny that.

However, the question comes back again to debts. I think the most important thing here is that, yes, we ask for forgiveness; we ask for what you call Christian country charity to release Third World countries from the burden of debt. I think there is a question of honour here. If you are a country in debt like that, the most important thing is that you feel you have paid your debts or whatever arrangement you can get rather than you losing your last honour, which you cannot get back. Society is changing all the time. So my proposal is that whatever country is in debt should come forward and pay their debts. In that way I think they have still got their honour.

CHAIR—Thank you. I think we would class that as a statement rather than a question. I will make this the last question and then we will have a general question session afterwards.

Mr MONEKE—I would like to crave your indulgence to go back to Professor Hughes's presentation. At the time she was making her presentation, she spoke a lot about morality and she made a point about Christianity. I want to believe that the core aspect of morality and Christianity is one of forgiveness. She worked as a representative of the World Bank or the IMF. Why was the management of the IMF supporting dictatorships in Africa by giving them loans? They knew they were dictators. Why was that management, at that point in time—and even now—supporting such a philosophy?

Prof. HUGHES—Very simply, you have asked why I left the Bank—not why I worked there. I fought it where I could. I never worked in a country that was totally corrupt. When I found out what Liberia was like, I stopped working there. But in the end you have to leave. A lot of people have left the Bank and the Fund for that reason in the last 10 or 15 years because the balance within the Bank and within the Fund turned from perhaps positive to certainly negative.

CHAIR—It is five past three and I would like to move on to our final speaker in the sixth session, which is to do with poverty eradication. I welcome Mr Andrew Hewett, who is Director of Public Policy and Outreach for Community Aid Abroad, and invite him to speak on debt relief and poverty eradication.

Mr HEWETT—Thank you, Mr Chairman. First of all, I would like to thank the committee for putting on today's seminar. It is an extremely important initiative and I hope that it will lead to a very thorough examination of Australian policy towards the debt crisis and lead to a much more active role by the Australian government than we have seen hitherto.

Given that we have talked a little today about paternalism and such things, perhaps I should also say what the source is of Community Aid Abroad's approach, and that of the Oxfam International family more generally, to this issue. We work in some 100 countries, mostly in the developing world. We are in a very close partnership relationship with a range of non-government organisations which are tackling the debt crisis on the ground and tackling the impacts of the debt crisis. That close partnership relationship is what drives our policy and drives our advocacy on this issue. That is, in a sense, our starting point about why we are concerned with debt as it impacts ordinary people living in villages and in communities throughout the world, particularly in sub-Saharan Africa.

The focus of my paper is on the relationship between debt relief and poverty reduction and eradication. I will be looking at four key things: firstly, refreshing ourselves about some of the facts and figures, the human reality, of HIPC countries and what it means to the ordinary people there; secondly, making some assertions and some arguments about the relationship between debt and poverty; thirdly, looking at the relationship between debt relief and poverty eradication; and, finally, proposing a seven-point plan for the government about what its policy position should be in the coming months. Given that the government at the moment seems to have a numerical approach to its policy development, I thought they might appreciate a seven-point plan.

I have a couple of opening comments. I do not claim that all poor people live in the HIPC countries—indeed, probably the majority of the world's poor population actually live in non-HIPC countries, if we think in terms of China, South Asia and the like. Nor do I claim that debt is the sole reason people are living in poverty in those countries. And nor do I claim that an effective approach to debt relief will solve all the problems of people living in those countries. As I will argue later, debt relief should be seen as part of a package of the approach to poverty eradication.

It might be useful to refresh our memories of some of the facts and figures that Ross Muir in particular gave earlier on about the countries which are classified as HIPC countries. They are an extremely diverse grouping but there are certain things that unite them. 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.

There are some 47 million primary school age children who do not get to school—that is more than a third of the worldwide total. The majority of these children are girls. More than a third of children who start school drop out before they have gained basic literacy skills. About half the households lack access to safe water and sanitation. On average, more than 25 per cent of the population of these countries is not expected to reach the age of 40, and in some countries, like Ethiopia, Niger, Burkina Faso, that proportion rises to more than a third. And the HIPCs as a whole account for 30 of the 44 countries judged to be in the low human development category by the UNDP *Human Development Report*.

These statistics are indicators of deep-rooted poverty and reflect past and continuing policy failures, both by national governments and by the international community—it is a joint responsibility for the problems. One of those key policy failures is, of course, the failure to tackle effectively the international debt crisis. These countries are particularly vulnerable to new threats. One of the most striking is the HIV-AIDS pandemic. More than 5,500 deaths occur every day from HIV-AIDS in HIPC countries. To give you one example, Zambia, 600 Zambian teachers die each year as a result of HIV-AIDS.

The situation in these countries is getting worse. The international community, including Australia, has set a series of international development targets to the year 2015. These targets cover such basic measures as access to primary school education, clean water and sanitation, as well as infant mortality rates and the like. Some of these HIPC countries, on current trends, have no hope in hell of getting close to those targets and, in fact, the situation is getting worse. One goal, the goal of universal primary education by 2015, will be missed in all but seven HIPC countries unless trends since 1990 are reversed. So we have these countries in quite a dire situation, and the situation in most of them is getting worse.

What is the relationship between debt and poverty? There are many reasons poverty is so rampant and chronic in these countries. But I hope—at least I had this hope at the beginning of today—that it is beyond debate that the debt burden is both a major reason why poverty is so deep and why it has spread in the HIPC countries, and, secondly, why these countries find it so difficult to find a pathway out of poverty.

I will give you four explanations about the relationship between debt and the existence of widespread poverty. I argue that unsustainable debt acts as a major barrier to poverty eradication in four ways. Firstly, it limits the resources available for investment in basic services which are essential to the poor. A UNICEF-UNDP study showed that six African HIPCs spent more than one-third of their national budget on debt servicing but, on average, less than 10 per cent on basic social services. This leads to inequitable growth and denies those living in poverty access to social and economic infrastructure which might enable them to raise productivity and participate more effectively in markets.

Secondly, debt overhang creates uncertainty for domestic and foreign investors, and that restricts growth. Thirdly, unsustainable debt acts as a barrier to the development of public policies capable of addressing the challenges facing HIPC countries. Fourthly—and this is a factor which has not been discussed so far—debt related pressures on national budgets have resulted in a shifting of the burden of financing essential services away from these public budgets onto poor households. One of the classic ways that is done is through the introduction of user fees for basic services such as education and health—and that is on already poor households who have very limited income and it normally results in people not accessing those services. That is a summary about the relationship between debt and poverty.

What about debt relief and poverty eradication? If we accept that unsustainable debt is one reason for chronic poverty in the HIPC countries, then it should also be accepted that tackling the debt crisis is an important step to enabling millions of people to move out of poverty—it has the potential to act as a catalyst for human development. The benefit will be even greater, and mutually reinforcing, if it is structured and provided in such a way which improves access to and the quality of the social and economic services used by poor people. Debt relief must be designed to support and reinforce integrated poverty reduction strategies which are placed at the centre of macro-economic design.

We do not claim that debt relief by itself is a sufficient condition for achieving the international community’s shared human development goals, but we are absolutely convinced that it is a necessary condition to achieve those goals. The HIPC process—and I think this is now a widely shared view—has not had a sufficient anti-poverty focus. It is probably this realisation—I live in hope—that has prompted the G7 finance ministers in their report which was considered at the Cologne meeting to call for a mechanism to ‘lay out specific priority steps needed to . . . enhance social sector investment, focusing in particular on poverty reduction’.

Why has HIPC not delivered the goods? There has been a whole series of problems, but essentially what is required is a renewed debt relief mechanism which delivers deeper, quicker, more flexible debt relief and, importantly, a mechanism which is linked to direct poverty reduction measures. The Cologne initiative, which has been discussed a little today, addresses some of the problems of the existing mechanism, but in many ways the jury is still out about what is going to come through from Cologne. There are some very positive aspects of Cologne. It proposes a lower debt sustainability threshold, which will double the net present value of debt stock reduction.

The provision of interim debt relief by the international finance institutions in advance of the completion point could significantly reduce the cashflow burden of debt service payments. The commitment to front-load debt relief in the early years could generate a substantial increase in resource flows and, importantly from my perspective, the G7 statement unambiguously transfers the HIPC framework into a mechanism for poverty reduction. It says:

> The central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs.

But there are real weaknesses, there are real failings, of the G7 initiative. Some of the countries with the most severe social development indicators, with the greatest incidence of poverty, will still be paying too much in debt servicing relative to spending on basic services.

One country that I was fortunate to visit early this year, Mozambique, even as a result of Cologne, would still continue to spend twice as much on debt servicing as on primary education, even though there are 1.2 million children out of school in that country.

Importantly—and this is one of the issues which has rumbled a little bit here today—the funding of the Cologne initiative is still unresolved. There is no indication about how this initiative is to be funded. Our fear, and it is a very strong fear, is that it may be funded by a diversion of development assistance. The declining pool of development assistance may be further diverted into debt relief, even from funds originally destined for non-HIPC countries, and that would be a shift to HIPC countries or within individual HIPCs, yet many of the non-HIPC countries, as I suggested earlier, also suffer from deep and chronic poverty. Further, such a diversion does little or nothing to strengthen poverty reduction attempts within the HIPC concern, and such a diversion of funds, as I say, comes from decreasing aid budgets.

We have other concerns about the Cologne initiative, including its ambiguities regarding the timing of debt relief, eligibility for such relief and the apparent contradiction with other moves and stated intentions of donors, especially regarding a greater sense of national ownership of development.

So how can the HIPC framework and the Cologne initiative be improved to give a greater linkage to poverty reduction measures? First, HIPC, no matter how good, cannot do it alone. It needs to be considered in the light of a number of other efforts to develop integrated poverty reduction strategies, and I will mention three such initiatives.

Firstly, the World Bank's proposal for a comprehensive development framework, as put forward by the President of the World Bank earlier this year, is being trialled in a number of countries at the moment. This is an attempt to integrate macroeconomic and financial policy reforms in a single planning matrix for social and human development concerns. It is also trying to develop coordination amongst various donors. Secondly, there are the principles of good practice and social policy which have been agreed to by the World Bank and the IMF. These emphasise the achievement of universal access to basic social services through an integrated strategy, placing social capital development at the heart of macroeconomic planning and institutional development. Thirdly, there is the 20/20 initiative, which seeks to enhance the equity and efficiency of public spending by both donors and national governments in pursuit of these shared human development goals.

These initiatives are helping to develop a policy environment which is conducive to poverty reduction measures. At the program level, there are at least three other important developments: firstly, the development of sector wide approaches, or SWAPs, which are an attempt to move away from project based financing to longer term sector strategies; secondly, improved budget management and medium term expenditure frameworks; and, thirdly, and what I would call the essential oil, a much more participatory approach to development.

Given these developments, how can debt relief be geared most effectively towards poverty reduction goals? Critically, there is no magic blueprint which can be applied without modification to each country concerned. Strategies and mechanisms are needed which adapt the processes and problems on a country by country basis, taking into account the state of national planning for poverty reduction.

Debtor countries have already provided a number of innovative approaches to poverty reduction which provides some very useful experiences, some very useful models. Uganda, a country that has been mentioned a number of times here, has established a poverty action fund which has provided a framework for channelling budget savings from debt relief into financing for priority social sector investments.

As a result of the first round of HIPC, two million more children are now in primary education as a result of limited debt relief from the HIPC. That is an important step and an important experience. It is a powerful one for two main reasons. First, it is an integral part of a national human development strategy—the Poverty Eradication Action Plan—which, in turn, is a central element of a well-defined, medium term expenditure framework. Secondly, the Ugandan government has designed and administered the Poverty Action Fund in a manner which combines budget transparency with a high level of civil society participation.

The Uganda Poverty Action Fund demonstrates a high level commitment to poverty reduction, as does the recent proposal by the Ghanaian government to establish a debt for development fund. This fund would link budget savings from debt relief to broad targets for raising expenditure in key social areas.

How can we transfer the HIPC initiative into a vehicle for poverty reduction? We avoid detailed blueprints, but we develop that broad and flexible framework. We propose, along with our Oxfam international colleagues, a two-phase approach. One of the by-products of this approach will be to strengthen the hand of those countries which are in the process of developing poverty reduction strategies and plans in collaboration with partners.

The first phase of our approach, and in a sense it is using the HIPC framework, is to the decision point. Debtors would be required to establish a track record indicating a commitment to a continued economic reform process and to poverty reduction—no longer just focusing on economic reform, as is the current process.

The current eligibility criteria would be reformed. Essentially, it would be developing more flexible criteria for macroeconomic adjustment and gearing that towards poverty reduction goals. The length of the track record, which is one of the substantial weaknesses of the current HIPC process, would be set in a much more flexible manner, depending upon country specific events, shocks and other conditions. It should be no longer than two years.

In this initial track record period, governments would be expected to: demonstrate progress towards an effective poverty reduction strategy; develop a national poverty assessment—a clear profile of the underlying causes of poverty and inequality, including regional and gender inequalities; develop a poverty reduction plan, addressing the challenges set out in the poverty assessment.

All of these documents and processes would be developed in collaboration with civil society and would be public documents. The aim would be to develop clear priorities for action, timetables for implementation and evaluation and monitoring procedures. Performance benchmarks would be developed with a view to capturing the pace, scale and quality reform, rather than absolute levels of achievement. There would be no fixed time frame for the preparation of a poverty reduction strategy, but such a strategy would be the requirement for proceeding to completion points. Countries reaching the decision point with a strong national poverty reduction plan in place could proceed straight to the completion point.

Importantly, under this arrangement, delayed progress towards the completion point should be seen not as a means of punishing bad performance or delaying debt relief, but as a means of ensuring that the flow of debt relief after the completion point is used with the maximum efficiency and effectiveness.

Moving to phase 2: at the completion point, governments will receive debt stock reduction and will exit from the HIPC framework. 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.

Performance criteria for measuring progress in the development of a poverty reduction strategy would include both macroeconomic and social policy indicators, including such things as progress towards poverty-focused public spending priorities, strengthened budget management, and development of a medium-term expenditure framework.

In order to demonstrate the capacity to absorb debt relief into the national poverty reduction strategy, governments will be required to develop, in cooperation with civil society and donors, a debt for development plan. Some of this draws upon the Ghanaian experience. This would detail: the proportion of debt relief which will be channelled into basic social services; the outcome targets related to increased spending on basic services, over and above those already envisaged in existing sector strategies and projected trends; infrastructural investments specifically benefiting the poor, such as support for rural feeder roads, irrigation and marketing support, specifying the regions and districts to be targeted; and monitoring and evaluation arrangements with civil society to assess the outcomes.

It is clear that we are proposing conditionality, and we do not shy away from that, but it is a positive conditionality to help tackle the most serious global social crisis. It is a way to put some substance into the internationally agreed 2015 social development targets. It is a way to ensure that the way out of the debt crisis becomes a permanent one for HIP countries. Importantly, it is a way to strengthen civil society in HIP countries and relations between civil society and government.

It flows from all that I have said that we want the rich world, including Australia, to help solve the debt crisis—and solve it quickly. The next two months are going to be critical. We believe it is essential that the Australian government joins with other governments—and, indeed, joins with the growing international movement, probably best reflected by Jubilee—to ensure that, from all the negotiations and discussions, a mechanism emerges which delivers faster, deeper and more flexible debt relief; importantly, one which strengthens the linkage between debt relief and poverty reduction.

Next month's annual meetings are going to be the crunch time. We propose a seven-point plan for the Australian government. Firstly, they should support and publicly support the thrust of the G7 Cologne communique as an important but limited step forward in recognition of the failings of the 1996 HIPC initiative. Secondly, they should also publicly recognise that the Cologne communique does not go far enough. The HIPCs are amongst the world's poorest countries and the majority will remain off track by a wide margin in meeting the human development commitments made at the World Summit for Social Development in Copenhagen in 1995.

Thirdly, the Australian government should advocate for debt relief to be linked to poverty reduction for the provision of incentives for quicker and deeper debt relief to HIPC countries and to put it to channelling resources into poverty alleviation program such as basic education, primary health care and basic rural infrastructure. Fourthly, the Australian government should advocate for HIPC repayments to be limited to no more than 10 per cent of government revenue for HIPCs as part of advocating a greater poverty focus to debt relief.

Fifthly, the government should advocate that countries with viable poverty reduction strategies should not have to wait at all for debt relief, let alone up to six years, and for generous interim relief to be provided as an incentive to those countries which have yet to develop plans for converting debt liabilities into pro-poor spending. Sixthly, and this relates to the discussion earlier about gold, the Australian government should commit to finance deeper and faster debt relief for the enhanced HIPC for additional resources, not out of the existing aid budget. The money from the Australian government and other governments has to come from new additional resources.

Finally, the Australian government should support the proposed IMF gold sales as a measure for partially funding debt relief measures. We want the IMF and the African

Development Bank to help fund the initiative. We see gold sales as one of the best ways it can happen. It is not an ideological commitment to gold sales; it is a very practical commitment about how the proceeds could be used effectively.

In conclusion, the debt crisis will be with us forevermore unless governments and people in the rich world, in countries like Australia, are prepared to take the necessary steps to ensure a sustainable solution. The next two months could be our once in a lifetime opportunity. Importantly, the linkage with poverty reduction has to be very clear. My final words are from a conference in Addis Ababa sponsored by the United Nations Economic Commission for Africa. It concluded that broader, deeper, faster debt relief will only be effective if the funds released from debt servicing actually reach the poor. That should be our goal and our aim. That should be our plans over the coming months.

CHAIR—We will move to questions and discussion. We have reached a situation where all the people that have been invited to address the forum have done so. We have been very fortunate and privileged to have such an excellent panel to speak to us from their various viewpoints in relation to their attitudes to the world debt problem. I also acknowledge that Professor Ron Duncan is here. He made some contribution this morning. I would like as many people wanting to ask questions from the floor to do so as possible. We have all had a chance to say something here. I will probably give preference to people from the floor who wish to make a contribution or ask a question or make a comment.

Ms JOSEPH—My name is Shobha Joseph and I represent a few organisations. I will not list them all. One of them is RESULTTS, Responsibility for Ending Starvation Using Lobbying, Trim Tabbing and Support; another is WILPF, Women's International League for Peace and Freedom. I am an Australian citizen of Indian origin and I have lived in Australia for the last 20 years. I would like to talk about my personal experience in regard to poverty and debt reduction. Our aim in RESULTTS was to end world hunger and poverty by the year 2000. We are fast running out of time. We just have four months. I do not think, as Andrew said, we have a hope in hell of achieving our goals and targets.

I also spent a year and a half working with the United Nations High Commissioner for Refugees in Sri Lanka, in a war zone. Like Christopher Ariyo said, I have seen first-hand how the alleviation of poverty is so affected by these debts that we have taken on in different developing countries. I ask people to raise their hands if they have actually visited a HIPC country. As you can see, there are a few, but there are quite a few who have never visited a HIPC country in their lives. I would invite those who have not done so to visit and see the problem for themselves, to experience poverty. My second question is: how many people in this room today have actually experienced poverty? Could you please raise your hands. Just one person? Two?

Interjector—How do you define poverty?

Ms JOSEPH—It is all relative. That brings me to my point: we are actually experiencing poverty here in Australia, and we do not talk about it. We bury it under the carpet. We have huge amounts of poverty here in Canberra. Nobody talks about it. It is all pushed under the carpet.

What I am trying to say is that poverty on a global scale is a very complex issue. We cannot solve it overnight. Look at the Aboriginal situation; look at our backyard. What do we have? We have people who do not have access to clean water, sanitation, education and health. We have it right here in Australia.

I feel really sick in the pit of my stomach that we have this huge debate about other countries and how we can go and solve their problems. Have you ever bothered to ask the poor people how poverty actually affects them and how they are affected by people who have made these decisions at government levels? Like Ariyo says, have you checked the Swiss bank balances as to how much money has gone from Africa, from people who have made decisions on behalf of their people? The people who are affected are voiceless. The poor are voiceless. They are very poorly represented here today.

I conclude by again inviting people who have never visited a developing country to do so. How do you define 'developed', 'developing', 'underdeveloped', 'overdeveloped' and 'undeveloped'? Who defines development? I might be quite happy living on a little island off the south coast of Papua New Guinea, or in Sri Lanka where I lived. I loved it and I had a fantastic experience there. You do not see the social costs. It is so easy to say, 'That's an underdeveloped place. It's rotten.' I might be very happy with my little laptop—sure, that is 'technology developed', supposedly—and fish, and grow my own vegetables. We are just talking about this from an economic rationalist perspective. Who defines development? Who is developed? Who is civilised?

I am very passionate about these questions and I have probably lost my thread completely now, but I am sure you will forgive me because I am an emotional person. That is why I have been keeping quiet for so long, because I did not want to open up the can of worms.

It is nearly the year 2000. We are supposedly nearing the next millennium, in 2001, and we still have huge social justice problems, huge humanitarian aid problems. Look at Kosovo. We have not even mentioned Kosovo today. Look at the infrastructure. How many years will it take to recover from what has happened in Kosovo? How much debt do they have to be in before they can say they are back to being a developed nation again? I will leave you with it.

Andrew Hewett's points were very good. I am sure Helen Hughes made some good points. I have seen first-hand how the fat get fatter. I just hope that we have some sort of method to make the rich and the poor come closer together—not to increase the debt in the world but to reduce it in some way. I hope Andrew's points are taken and I hope that Australian policies do not continue to create debt and make people live in poverty. I hope that that is taken on board.

Mr CURE—I am the High Commissioner of Mauritius. I would like to make one point. When I look at all the tables of figures presented here, you cannot ask the community to expect another catastrophic assessment of the countries we have looked at. I want to point out to the committee that one aspect of economics, especially in Africa, is the informal economy. I would quote perhaps the example of Cameroon where it amounts to probably more than 50 per cent of all the growth of the country. It shows that there is an element of society which is disconnected from the banking and the official economic institutions, and which is a very resilient factor in the economy.

I know that there is corruption, that there is a breakdown in the institutions, that there is war and catastrophe, and some countries are really in a very helpless situation. I do not think the picture that we get from a very cumulative assessment is that bad. I do not want to make a point either way, but perhaps this is an area where the committee could look, if it has the means or the resources to look at this particular economic aspect. It is a very undocumented aspect of the economy, but it is a very real part of the situation in these countries which this committee might wish to address.

CHAIR—Thank you. Any further comments or questions?

Mr MUSA—I was just thinking about Pakistan, for example, a country which spent more than 70 per cent of the GNP on arms. A small percentage is for education and social welfare. You can see that if you look at their GNP and what they spend on education, what they spend on arms, you can see where the society is going. You have to have some policy here to stop a country like this buying arms from, let us say, Western countries that produce sophisticated arms. Of course, we cannot stop it if war breaks out in that particular country, but there must be some policy to check and to stop these mad leaders who are going to spend more money on arms.

Mr THOMAS—I am part of the Jubilee 2000 coalition. In the first speech today we heard Kathy Sullivan make mention of the public campaign of Jubilee 2000. She mentioned a disputed figure of 2,000 letters and mentioned a petition, saying, 'Whatever that is.'

The G8 meeting in Cologne received a petition of 17 million signatures from around the world. Of those, 385,000 were from Australia. That petition was presented to members of parliament 10 days before it was sent to Bonn. That is, I think, the petition that she is talking about. The 385,000 signatures made up, as far as we can work out, the largest ever petition on a foreign affairs issue, and second only in Australian history to the Mabo petition. It was the second largest petition ever presented in Australia. My question is to the members of the committee. Is the committee aware of the petition and will there be a response from the committee about the issues raised in the petition?

Mr HOLLIS—The petition was presented in this building. Bruce Baird spoke on behalf of the Liberal Party and I spoke on behalf of the Labor Party. Senator Lyn Allison spoke on behalf of the Australian Democrats, and Dee Margetts was there. It was presented to us and then, as I understand, it went on to Germany.

You asked about the reaction. First of all, the committee has organised this seminar today. There have been several speeches made in the parliament. The member for Grayndler, Anthony Albanese, has a private member's motion on the notice paper. I cannot speak for other members, but I received copies of the petition before, and I have been involved in my local area with Jubilee 2000. I would receive three or four copies per day of the circular letter that is going around. And I receive, on average, one handwritten or typed letter a day. I would say that my experience is not greatly different from any other member of parliament. And, of course, each of those get a fairly detailed response from me.

The committee also had the adviser to the Foreign Minister of Uganda before us to give us a briefing. I cannot talk on behalf of all members of parliament, but going on my personal experience, most members of parliament are aware of it. As in all issues, their response varies from enthusiastic endorsements to not terribly interested. I think the chairman and I are the wrong people to ask questions like that of because obviously we have been involved in the organisation of this seminar today. Therefore, we might be a little more familiar with the issue than some of our colleagues, and perhaps a little more committed than some of our colleagues. Yes, the topic is on the agenda within the parliament.

CHAIR—Could I add to what Mr Hollis has said. Kathy Sullivan, this morning, was responding to an article that was in the paper yesterday when she was talking about the letters that were supposedly received and never answered. I cannot remember her exact words, and you say she mentioned a petition. I am not sure that it was this petition that she was talking about.

Mr HOLLIS—I think it was.

CHAIR—Was it?

Mr HOLLIS—Yes.

CHAIR—Whatever it is, I certainly know that she wanted to respond to that article because, as you are aware, she is the parliamentary secretary who is responsible for responding to those letters and she wanted to clarify that position this morning, and she was quite keen to do it.

In regard to the seminar, as Mr Hollis said, this is the opportunity that we have given to people to actually have some input into our committee. Parliamentary committees such as ours facilitate public input into the committee process, which then gives us the opportunity to make some decisions. We have tried to get points of view from all sides because there are a number of points of view on this issue. It is by no means unanimous. It is like a lot of other issues that come before our parliament. I can give you the example of a legislation committee. The only people who give evidence are those who oppose what we are doing, or want to change what we are doing.

In a seminar like this, most of the people here today have obviously come from a particular point of view. They want to put their points of view before the parliament and before this joint committee. We take them seriously and we take it on board seriously, but we then go away and write up our own report and determine how we are going to report it and how we treat the submissions that have been made and the things that have been said today.

Prof. HUGHES—I would like to make a few points as a participant. I think that lobbying is a very important democratic right. I have sat on government committees and I have listened to all points of view from the lobbies. I think that lobbying for this particular form of debt forgiveness and the views expressed here and summarised by Hewett are just as valid as lobbying for an increased tariff for pork so that we do not get any more—

CHAIR—Let us not start on that today!

Prof. HUGHES—I am just saying that all lobbying is valid. This is a democratic country and, in the end, it is parliament that has to decide. I am a bit worried when I see here that Jubilee 2000 has a model letter and all you have to do is copy it and send it to 50 representatives. That sort of lobbying worries me.

I do not think that those who thought of this seminar—Mr Hewett, the majority here—gave enough thought to examining the other point of view. There has not been any serious discussion of other forms of dealing with debt. There has not been, to date, any serious discussion—maybe a little bit of discussion—of why conditionality has failed. My blood froze when Mr Hewett said at the end, 'We are for conditionality,' without going into the considerable evidence of what conditionality means. I say, 'Yes, let's have lobbies. Let's try and have a more balanced and serious debate and let our parliamentarians decide because ultimately it is cabinet and parliament who represent us, not the lobbyists.'

Mr RAHIM—I am the Bangladesh High Commissioner here. I have carefully listened to all the views about the debt situation with the HIPC countries. Their situation is, of course, very desperate and it calls for some special measures, otherwise they will be doomed further.

But, while expressing concern for these countries, I find that there are other types of countries that may not be in that desperate situation, where there are an appreciable number of poor people living. It has been made clear here that poor people are not living only in the HIPC countries. Maybe in absolute terms there are more poor people in countries in South Asia, including mine.

We have been doing certain things which have the approval of the international community. We are getting a pat on the back for some of our policies which have given us some results. We have been investing a lot in the social sector. On education and health together, we have devoted a third of our budget in the last several years. Our highest allocation in the national budget goes to education. Defence is much lower. These are giving some results. We are paying attention to increasing our exports. As a result, for the last several years our exports were increasing by around 15 per cent per year except, of course, last year when we had a devastating flood which affected them. In spite of that, our exports over the year before have increased by about three per cent.

These are some of the achievements of the policies that we have adopted but, in spite of that, around 40 per cent of our people still live below the poverty level. Unless we are given support to implement those policies further, there will be very little for the poor people to get and there will be very little poverty alleviation. Not only the government in Bangladesh, but also many NGOs have adopted policies which are giving results. These are all well-known, like the Grameen Bank. These are all our indigenous NGOs. They have done a lot for the alleviation of poverty. These are getting significant support. We are getting a pat on the back. But if we are ignored in terms of material help then these policies will very soon peter out.

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. Last year, because of the floods, there was some special allocation. If you take out the flood related commitment last year, even then this year's commitment is about half that of last year. We are afraid that maybe these resources are going somewhere else. We are only getting the pat but not the support for implementing the policies so that we can successfully reduce poverty in the country. It is unacceptably high, around 40 per cent, and something must be done.

I believe that this direct aid may not be the only answer. In spite of aid, things may deteriorate unless there is real help for countries like ours to stand on our own feet by other means. Because of the globalisation, as a member of WTO we have to follow their rules. We have opened our market. We, as a country with protected measures, were used to certain types of things. Things were not good but they were not bad either. We did get some revenue from high tariffs when they were available. Now, because of the WTO policies and the liberalisation of our trade policy, we have had to reduce tariffs. We have opened our market and we have removed all non-tariff barriers. As a result, export to my country from many countries is having a dramatic effect.

I will mention this country, Australia. In the last few years since our liberalisation, Australian exports to my country have increased threefold, whereas our exports to Australia have stagnated. We have been promised by the WTO and the General Assembly that if we liberalise our policy there will be some reciprocal facilities given to us as a least developed country. Everywhere it has been promised that products from the least developed countries will be given duty free access into the developed market, but very few countries have done that. Most developed countries have not responded, although they are getting the benefit of the liberalisation at the other side. If these concerns are not met by opening the market for the products of the poorer countries so that they can join the mainstream eventually, only a little pat on the back will not do much for the reduction of poverty where it lies.

CHAIR—Thank you, Your Excellency.

Ms Hunt—I would like to say something about the issue of conditionality because it seems to be a fairly key issue. Certainly the history of conditionality in the past has not been a particularly successful one. It is an issue we need to address. Some of the features of conditionality that are being recommended by the non-government movement at the moment are different from the type of conditionality that research shows was not working so well. Let me give you some examples of what is different about what is being proposed now compared to what was actually applied before. Firstly, it is positive conditionality, and it is positive in response to policy changes in those countries. Andrew Hewett set out that it would require a couple of years. It would require national poverty assessments and some mechanisms in the country to ensure that funds released or freed because debt service repayments were no longer required would go into those kinds of programs. That is the first thing.

Secondly, is the issue of transparency. Previously a lot of the structural adjustment program details were not particularly transparent and particularly not to the civil societies, both in the north and in the countries themselves. The idea of making these packages completely transparent is a very important idea because that would enable the third feature that is different to occur—that is, the monitoring of the implementation by civil society. 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.

I accept what people are saying about some of the difficulties of conditionality, but we have to find some sort of breakthrough for these countries because I do not accept—whatever Helen may say—that they can find their way out of this without some support. They are like a bankrupt person. I would also urge the committee when looking at this to look at the package that is needed, because it is clear that debt reduction alone is not going to solve the problems.

I think I heard David Pearl say that increased aid flows were a necessary part of the package—I hope I did hear him say that. I hope our government believes that that is part of the package, as well, because our history of assistance to Africa is not a very happy one. It is largely the African countries that we are talking about, as has been pointed out several times today. 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.

Regarding trade, we have heard today from some of the diplomatic representatives here about the asymmetry of liberalisation. We must take that on board as a nation, particularly as a nation that is very gung-ho about trade liberalisation—Australia is really at the forefront of pushing for trade liberalisation. We need to ensure that, when we push—as undoubtedly we will—for a new millennium round, we also agree that there be some proper impact assessment, both of the liberalisation that has taken place to date and of projections of what new liberalisation might do. Who will be the winners? Who will be the losers? No-one from the government that I have heard has denied that there are losers in trade liberalisation. They know that there are losers—but what are the support packages for those losers? We have done it for the textile workers in our own country, but what about the losers internationally?

As part of this package, conflict resolution is crucial: if you look at that list of highly indebted poor countries, many of them are embroiled in conflicts. The relationship between the poverty, the indebtedness and the conflict is a moot point. The question as to which one caused which would take a lot of discussion. Clearly, what is required is that those conflicts be resolved because you cannot have much development where there is conflict. So that has got to be part of the package.

I would join with others in applauding this committee's initiative in holding this seminar. As an NGO who is a lobbyist, I am very clear which is the elected government and what is the role of government. I do not really need a lecture in the role of a lobbyist and the role of a government. I am quite clear about who has the right to make the decisions. I hope that in looking into the points that have been put before you today and in putting forward your recommendations, Mr Chair, you will take those ideas into account.

Prof. DUNCAN—Just to respond to a couple of points, starting with Janet’s last point on conditionality, what comes from her argument is that she is not arguing for debt forgiveness for all, as Jubilee 2000 is—

Ms HUNT—Jubilee 2000 is not. Please do not misrepresent it.

Prof. DUNCAN—That is what I am saying—you are not arguing for that. You are arguing for debt forgiveness only for those countries that can demonstrate commitment to good policies, to good economic management. I just want to stress how difficult that is to demonstrate, how long it takes for a country to demonstrate that the leopard has changed its spots. I would just take the example of Nigeria.

I think Nigeria is the worst case that could have been brought forward to the committee today to argue for debt forgiveness. Again, I pick up the discussion about countries being able to be made bankrupt. In terms of natural resources, Nigeria is one of the richest countries in the world. Its agricultural land resource is tremendous, it has got oil, it has got minerals. It has largely wasted those. The High Commissioner only talked about the 1980s. The problem started in the 1970s when we had the oil price boom and all the oil exporting countries collected all this money that was essentially wasted or put into various Swiss bank accounts.

Nigeria is still a very rich country in terms of natural resources. It is not an insolvent country in the sense of bankruptcy. It is an illiquid country—that is, it has a debt problem at the moment but it has got enough assets so that it can securitise those and borrow much more than the debt that it owes. So the issue is: why won’t countries lend to it? Countries will not lend to it because it does not have the kind of environment that makes investment secure. If the country is going to become a favourable place where investors want to put their money, both Nigerians and non-Nigerians, then it will have to demonstrate to the world that it has changed. As I say, that is going to be a very difficult thing to do. But it should start off not just by changing its industrial policy, as Helen Hughes says; it should start off by demonstrating that people have secure property rights, that the government is not going to intervene in contracts. That is going to be a very hard thing to do and it will take time to do that.

Prof. HUGHES—Janet, I disagree that the correct sort of conditionality was not there before. I have participated in the writing of conditionality that put poverty alleviation first from the 1970s. The conditionality has been there; it has not been acted on. So I disagree; if you look at the loan agreements and what the Fund said, I disagree. But that is a question for archival research.

What I want to say is that you are absolutely right that it is important that these agreements be transparent and they go on the Internet. The Fund and Bank intervention in Indonesia has gone on the Internet and it has had a wonderful effect. Everybody is saying, ‘We want to get rid of the Fund, the Bank and the NGOs.’ I think that is a wonderful outcome. It supports my view, which is very different from yours. I am not paternal. I do not think Ghana needs support. Mauritius did not need support. I do not think these countries need support—they can do it on their own. One of the best things we can do is to just get out of their way.

CHAIR—I should let Mr Ariyo comment here.

Mr ARIYO—Thank you, Mr Chairman. I think we have all agreed that there is a problem. I do agree that Nigeria is a rich country, or it is latent—we have the resources there. What I said in my paper was that we actually sought the injection of capital in order to develop these resources so that we could improve the lot of our people. You will agree with me also that the money that was said to have been loaned to Nigeria never reached the shores of Nigeria. Where is the money? Is it fair to now ask us, who did not get the money, to pay. It is a moral issue.

Prof. DUNCAN—Where is the oil money?

Mr ARIYO—No, we are not talking about oil money. We are talking about the credit.

Prof. DUNCAN—I am talking about the oil money.

Mr ARIYO—When I went to school in Nigeria we had only six universities—that was in the 1970s. Now we have more than 36 tertiary institutions. We cannot defend the fact that some of the revenue from oil was used by some of these governments to develop part of Nigeria. How many airports did we have when the colonial people left us? Even in the 1970s we had not finished the wars. How many airports did we have at that time? As of today, virtually each of the state capitals can boast one airport. I know very well that Shell, Mobil, Chevron and all of them who are participating in the Nigerian economy and many Australians who I grant visas to regularly—at least two or three a day—go to Nigeria and are doing business in Nigeria. They will come and tell you that the facilities on the ground have considerably improved. But what we are saying is that it ought to have improved much more than that. Some people cornered the resources that we wanted to use and they never came to Nigeria. It is going to be unfair to ask us to pay for what never came to the country. That is the issue.

The issue is also that when the IMF officials and the creditors' officials saw the money they knew that the banks were not in Nigeria. They were in Europe and America and they just transferred the money from one account to the other. They now expect us to pay for it. Most of these people do not even live in Nigeria. Since I came here I have been trying to see how many Australians own private jets. How many Australians can boast that they have a private jet? Your system will not allow for that; tax will be paid. But the rich people in Nigeria—where are they paying tax? And if they do not pay the tax that they ought to have paid into the economy, where is it being kept? That is freedom, fine, but it is freedom at the expense of the larger society. The majority of the people in Nigeria continue living in poverty, so they attract aid. We do not want to be living on aid. We have the resources.

What we are saying is, 'Remove this burden from our neck and let us be able to use our resources to develop ourselves so we stop being a beggar nation.' I was in Addis Ababa in 1981 to 1983 at the ECA and I remember that if we wanted to fund an African project I would say, 'How do we pay for this?' But I cannot do that now. With many African countries we did that when we had the money but now we cannot do that because the debt is so much.

I remember when the French wanted to decouple themselves from resourcing the CFA. They came to us and said, 'We have to do something.' We have so many burdens not only the Nigerian problem, that we face with our resources. We have problems spread out along the west coast which we have to attend to. Virtually every country in west Africa comes to Nigeria to shop, to do one thing or another, so anything that happens to the Nigerian economy is affecting the whole of the west African economy and the central African economy. This is why we are saying that if you relieve our burden we will be in a position to alleviate some of the problems that are facing our neighbours.

This is the issue. Like Niger and Chad, they all depend on us for their electricity; they depend on us for the importation of their goods and services through the ports. The ports are collapsing; everything is collapsing because these debts are there. Right now the universities in Nigeria are in trouble because the money to go into education is not there. Families are being made to pay for education. When I went to university it was free, but now every family has to pay, and the conditions for being able to pay are no longer there. The prices you pay for their products are no longer what they were in those days. They have to pay for all the social services. They have to pay for this; they have to pay for that. So you continue to breed illiterate people, and there is nothing like having illiteracy or illiterate people within a society. They see something and cannot understand the complexities surrounding it and therefore become a social danger.

What you asked was whether we should go back to democracy. Democracy will not thrive on illiteracy; it will not thrive on people who do not have proper food; it will not thrive on poverty; it will not thrive on an empty stomach. This is what we are asking for. If there is no debt cancellation, the cycle of poverty will continue, and the informed public in Australia and other Western countries will continue to put pressure on their governments to do something. A sense of humanity will continue to erupt in them and they will say, 'Look, this is an ugly sight.' Through thousands of antennae this is beamed into everybody's rooms all around the world every night. This is what we are saying: 'Please, let us face reality.' Those governments that you supported all through the way are no longer there. Many people died in the process of fighting for democracy in Nigeria. They were killed on the streets fighting for that democracy. That democracy may die.

I think we should put our money where our mouth is, please—so that we can have a solution. I am appealing again to the committee. While we are discussing this issue, you should kindly realise that we are talking about human lives. We are talking about the future of Africa and the future of humanity as a whole. I am asking you to rephrase the constitution of the proposition that will be advanced to my country.

Mr HEWETT—I would like to make a couple of comments to outline the conditionality a bit more. What often happens at conferences and seminars is that you find some common ground, and I have some common ground with Helen: we believe we have to get out of the way and try to enable people to develop their own capacities. Where we differ is in what obstacles we see are in the way. I argue that the key obstacles for a number of countries are the actual debt crisis and the burden of debt servicing.

Prof. HUGHES—We agree. Where we disagree is where I say that, if they are serious and are going to change their policies, they should repudiate, and they will be in good shape tomorrow. You want the whole international bureaucracy, the NGOs and Uncle Tom Cobley and all to get involved in the process.

Mr HEWETT—I will say something about what has happened in Uganda as an example of what I am talking about in terms of positive conditionality or, there, self-imposed conditionality might be a better word. In a sense, their approach should be taken as one of incentives. The issue they are trying to address is fungibility: be it debt relief or be it official development assistance, the funds can simply be diverted to any other purpose. It could be used for military expenditure; it could be used for corruption or whatever. That is the issue they are seeking to address, and it is a very critical issue, as I think everyone around the table would agree.

There are no easy answers, but transparency and accountability are critical components of the answer. If you look at the experience over the last few years in Uganda, you will see some positive lessons there. First they have a poverty eradication action plan which highlights key areas for development and trying to reduce poverty, and it has targeted those areas. The primary education grant has increased by over a third in the past two years, and spending on the development of rural feeder roads has more than doubled. These are important steps in poverty reduction and in developing people’s livelihoods and productive capacity.

The Poverty Action Fund acts as a conduit for the funds saved from the HIPC debt relief. To date, that is about $37 million a year; post Cologne, it could probably be double that. It has been earmarked for spending against the priority areas identified under the Poverty Eradication Action Plan. They have also identified specific outcome targets, such as the construction of about 1,000 additional classrooms which will be important for universal primary education goals to be achieved.

What they are trying to do—and this is picking up on Janet’s point—is to set up transparent and accountable structures. Reports and financial allocations are released at quarterly meetings attended by donors and NGOs. Simultaneously, the inspector general’s office monitors the use of the funds at both a district and a national level. There are other measures being talked about for trying to improve the monitoring process. They include getting district level officials into the quarterly meetings and community based monitoring of poverty action funds through indigenous NGOs. They are based upon transparency and accountability. They are trying to tackle the fungibility issue, which is a critical one for anything to do with development assistance or debt relief. They are tied to that national plan at a local and a national level.

Prof. HUGHES—That is absolutely right. That is the glass that is half full. Let me show you, for Uganda, the glass that is half empty. The regulations governing going into business, undertaking business, et cetera, which have been left over—like industry policy—are still in place. You have to bribe officials to go into business. You have to bribe people to get bank loans and, as a result, jobs are not being created. You know and I know—and I think we can agree on that, too—that you cannot have real poverty alleviation unless you have an increase in productive employment—unless markets are simpler and so on. Until they get rid of that corruption, they are not really going to be able to do anything about poverty alleviation. You are concentrating too much on the bureaucratic aspects of poverty eradication. The literature is as long as your arm. You know as well as I do that, unless you create jobs and growth, you are not going to be able to sustain it.

If Uganda were serious, it would tackle the other half of the glass as well. That is why I do not think that Uganda is a model country. Every time the Bank and the Fund declare a country a model country, it is a disaster—so I am very worried about Uganda. This is a serious concern. I do not believe in conditionality at all, but if you guys want to make it stick and you want to make the Cologne thing stick, you have got to write the productive bits in as well. Unless they clean up the law and property rights, this is going to run into sand.

Mr HEWETT—I do not disagree but that is only part of the issue. That is one of the points I was trying to make: debt relief is only part of it. It is a critical part and it is a necessary part, but it is only part of getting poverty eradication on the agenda in these countries. I agree wholeheartedly with having the emphasis on productive capacity. What is important is that it is not just talking about funding in social sectors; it is also talking about things such as rural infrastructure which—particularly for the rural poor—is so critical for their productive capacity and to access markets.

Prof. HUGHES—The important element in Uganda, as in most developing countries, is to get the urban economy going so that you can get the surplus people out of the rural areas to get jobs. That is what happened in South-East Asia. They can open shops and do all those things.

Mr HEWETT—My position is not to say, ‘Until everything is in place, there is not much point moving.’ My position is: let us try to get some things in place. As much as anything, that acts as a stimulus for other aspects of public life to get their act together and to get into place.

Prof. HUGHES—We are now disagreeing in two areas: one is in regard to letting the developing countries do it themselves. In fact, I do not think we are disagreeing on anything else. Let the developing countries be the ones that take the initiative.

CHAIR—In fairness to others, we cannot afford to have a continual backwards and forwards dialogue. We are going to draw to a close fairly soon, and Professor Remenyi has been waiting very patiently.

Prof. REMENYI—I would like to highlight two questions that I think this topic we are discussing today brings to centre stage. The first question is: who is responsible for the debt? Is it poor people? The answer must be no. The second question is: who is being asked to bear the burden of the debt? Is it poor people? The answer currently is yes. We cannot accept that answer. That is really the issue. Justice demands that we not accept it and that we bring to the roundtable agenda the fact that responsibility for this debt has to be shared by the creditors, those who are corrupt by their being brought to book and those who have been beneficiaries of loans that should never have been created. This is part of our short-term goal.

Part of what has also been raised here today is a long-term issue that the committee may need to take into account in other ways and at future times. It is about the role that Australia plays in the international community as a supporter, bankroller and partner in the World Bank, IMF, Asian Development Bank and all those agencies that appear to increasingly be failing from the evidence. Do we need a new Bretton Woods? If we do, who within the Australian system is seriously looking at it? This is a very important issue. We should not just simply say that we will continue to go along with a system that is not delivering the goods that we are paying for.

I have difficulty with the position that Helen Hughes has taken on debt repudiation, in part because that is a role that should be there as a backup. 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.

Mr THOMAS—My question is to Professor Helen Hughes. I have given probably over 100 presentations in the last year about Jubilee 2000 and debt cancellation. The first question that most people ask is: who will pay? The second is question: why do they not just repudiate the debts? It seems so intuitive and elegant. My concern about that has always been that, as we have seen from some of the statistics today, the external sector is an important part of HIPC economies. So much trade is financed through credit that repudiation may impose a very cost on the nation that does it unilaterally.

Prof. HUGHES—The answer is that it has not been examined. It has not been discussed. One of the main reasons for that is that there are no bureaucratic rents in repudiation for anybody. It needs to be examined and discussed because I think it is the quickest, neatest, cheapest way out. That is a hypothesis that I am prepared to defend. Other people can say that is not the case.

CHAIR—Thank you very much, Professor Hughes, for your contribution. Professor Inder wants to just say a word or two on the same issue.

Prof. INDER—There was a fair bit of discussion on the question of debt repudiation in the economics literature in the 1980s and 1990s because there was a lot of debt repudiation in the 1950s in Latin America. The general feeling amongst the experts then, if you could trust them, was that debt repudiation set those countries back a fair way for similar reasons that were put. I partly agree. It is certainly an issue that needs to be explored more, but I am not quite in agreement that it has not been considered at all.

Mr HILL—Just to add to what Professor Inder has said, in a paper for my master's program at Monash a year ago I looked at this issue, particularly with regard to Africa and repudiation during the 1980s. The pattern there was if it was done unilaterally, countries suffered greatly economically and the social costs were very high. In the end the outcome of the analysis was that the costs of unilateral repudiation were far too high. If repudiation is to be done, it is needed to be done in some sort of internationally supportive cooperative mechanism. In Jubilee it is something that we will continue to talk about. It is an idea that we will discuss and explore.

CHAIR—I am going to allow two more very brief statements, one from this lady here and one from the gentleman who had his hand up. I will have to ask you to be very brief because we do want to conclude.

Ms EMERY—I am from Jubilee 2000. I wish to put something to the committee for investigation. It is really just a statement. Again I am referring to Senator Hill's reply to question 604 of 20 May. Nicaragua was lent export credit for sugarcane harvesting equipment; Vietnam was lent export credit for, amongst other things, a fruit and vegetable processing plant, metallic cable telephone cabling and an automatic data processing machine. I am not sure what Laos was lent money for; we have not been given that information yet. We are interested in how these investments have performed and what type of return we have received on that. Also, what can we learn from this as a lender, given the way that these particular investments have actually performed?

CHAIR—We will try and get the information for you.

Mr COLLIS—I am from Jubilee 2000 also. It appears to me that there is an across-the-board agreement that money siphoned off to elites and to dictators was unfairly taken and perhaps it should be taken back into the countries wherever possible. To my knowledge that has not really been done on a big scale. It would be helpful if this committee could adopt that as a resolution. I do not think there would be many people here who would disagree with that. I recommend that the Australian government represents that view at the World Bank and IMF meetings in September.

CHAIR—We will take on board what you have suggested to us but I cannot promise what the committee will decide at the end of the day.

Prof. DUNCAN—Mr Chairman, just to balance up things, while we may be uncertain about the impact of debt repudiation, we are equally uncertain about the impact of debt forgiveness. The moral hazard problems associated with that may be just as large.

CHAIR—We could go on for a long time. We have had a fairly long session today but now I do want to conclude. In conclusion, I do not think it would be wise to comment on all of the things that have been said today except to say to everybody who has made a submission, to everybody who has spoken and to those who have asked questions that we will be looking at the *Hansard* very carefully. It means that we have some information that we can use which will help us when we have to make our decisions and I have no doubt that we will look elsewhere for other information as well if we need it to come to any final decisions. There will be a report on this seminar and we will be presenting it to the parliament.

I am not going to name all the speakers, but thank you very much to those people who were invited to speak and who took part and presented to the seminar today. There are not as many people here now as there were this morning but it really was a very well-attended seminar prior to lunch, which I think indicates the general interest in the discussion overall and not only from those who are supporting and proposing certain actions. Thank you very much to all of you who contributed to this today. I would also like to thank the members of the Foreign Affairs, Defence and Trade committee who have spent their Friday here today and I would particularly like to thank the members of the diplomatic corps. There have been a number of representatives from the various embassies here and we really appreciate your interest in this particular topic. You give us the perspective from your own countries.

I want to particularly thank the secretariat of the Joint Standing Committee on Foreign Affairs, Defence and Trade. Margaret Swieringa is the secretary. Jon Bonnar in particular has put in a tremendous amount of work in drawing this together and he now has a lot of work left to draw everything together so that we can get a report. I want to particularly thank the secretariat staff because it is a major contract to put a forum like this together and to try and represent all points of view. The effort that has been put into it has been outstanding.

A report from this seminar and the transcript of proceedings will be tabled in the parliament and there will ultimately be a government response. Should you require a copy of the transcript of proceedings earlier, it will be available on proof form on the Internet within the next two weeks. You will need to surf to the JSCFADT—the Joint Standing Committee on Foreign Affairs, Defence and Trade—home page to get to the document. If you have any other queries on this seminar, please do not hesitate to contact the seminar convenor, Jon Bonnar, or even see him here before you go. If there are any other queries do not hesitate to contact Jon or other members of the secretariat. Thank you very much, one and all, for your participation.

Before closing, I would like to incorporate in the transcript the table presented by Professor Hughes. Is it the wish of the committee that the table be incorporated inthe transcript of evidence. There being no objection, it is so ordered.

The table read as follows -

Committee adjourned at 4.31 p.m.