Thickheadedness on African Debt

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ACCRA, Ghana — In the runup to the Group of Eight meeting in Japan last week, activists of all stripes were working hard to ensure that their issue would be on the agenda. While the agenda changes from year to year, one item has become a mainstay: debt relief. The fact that this issue repeatedly resurfaces calls into question the effectiveness of a well-intentioned development tool.

Instead of promoting debt relief year after year, the time has come to pursue more sensible, sustainable solutions. The G8 finance ministers have established several laudable and impressive goals that commit them to facilitating economic growth and development in African countries and affirming the importance of "good financial governance, including long-term fiscal discipline for resource-rich countries."

If African economies are to sustain their growth and lift millions of citizens out of poverty, as India and China have done, better fiscal discipline and financial governance are essential.

For too long, ordinary Africans have struggled to get ahead because of poor governance, corruption and a general lack of economic freedom; the G8 would only perpetuate these policies with its well-intentioned, yet ill-practiced policies on debt forgiveness. More than 90 percent of external debt of heavily indebted poor countries arises from official loans from creditors such as the World Bank and the International Monetary Fund. Much of this debt has already been forgiven and paid for by Western taxpayers.

Yet, despite hundreds of billions of dollars in debt cancellation and donor aid, Africa's leaders and their rock-star champions still demand greater donor assistance to provide even the most basic services. In 2005 the G8 championed debt forgiveness and promised to increase foreign aid spending dramatically.

There does exist some cases in which debt should be forgiven. For example, debt accumulated by rogue leaders, such as the former-Zaire President Joseph Mobutu, should not shackle the current population of what is now the Democratic Republic of Congo.

Much debt accumulated under the economic misrule of Zambian President Kenneth Kaunda has been forgiven, and under the World Bank and International Monetary Fund's HIPC program, funds released from debt payments are being used to pay for health programs, among other things. Still, great caution must be exercised in forgiving debt so that it doesn't reward corrupt leaders and perpetuate failed economic policies.
The G8 goes beyond debt forgiveness by seeking an end to "aggressive litigation" against heavily indebted poor countries. This litigation often arises when investors who have abandoned hope of recovering their debts sell their debt at discounted rates on secondary markets. The secondary market investors then use the judicial system to recover from sovereign states what is owed to them. Disparagingly known as "vulture funds" these investors play an important role in international finance.

Take the case of the Republic of Congo, a country with vast resources that is ruled by the astonishingly corrupt Denis Sassou-Nguesso. Every year the Republic of Congo (distinct from its neighbor the Democratic Republic of Congo) earns almost $6 billion from oil reserves, but little of this is used to improve the lot of ordinary Congolese. According to the United Nations Development Program, Congo’s Human Development Index, which accounts for a range of factors such as life expectancy, health care and education, ranks the country at 139 out of 177.

Over the past 20 years, as the quality of life for most people around the world, particularly in South Asia, has rapidly increased, it has gradually decreased in Congo. The profligate corruption of the ruling elite is part of the problem. Credit-card receipts prove that Denis Christel Sassou-Nguesso, son of Congo’s ruler, charged over $200,000 on luxury items on shopping sprees in Paris and elsewhere. When his president-father’s entourage visited New York for a U.N. summit, they racked up a hotel bill of more than $300,000, paid mostly in cash.

Yet Sassou-Nguesso pleaded poverty and refused to pay the country’s debts when they were taken over by hedge fund managers Elliot Associates.

After years of investigating Congo’s actions, Elliot Associates exposed rampant corruption and maladministration in Congo and finally arrived at a settlement.

Yet, the G8 and some U.S. congressmen want to outlaw such practices, playing neatly into the hands of corrupt and venal leaders that have shackled Africa in the chains of their misrule for too long. If the G8 really wants to help Africa, it should work to build sound financial systems and ensure that the ruling elite are held responsible for the debts they incur. To expect less accountability and responsibility from African leaders than the G8 expects from itself is to sell Africa short.

Furthermore, it betrays those Africans, like myself, who are trying to build better societies and economies based on the rule of law, individual responsibility and rights, free trade and private enterprise. Unless the G8 holds governments and the ruling elite accountable for their bad decisions, there will never be any incentive to improve policies and make good financial decisions.
Without such reforms and improved accountability from the real vultures — the ruling elites — ordinary Africans will be kept poor and isolated from the global economy and the hope of a better future.

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