Human Development before Debt Repayment

Civil Society Debt Sustainability Reports of Ecuador, Kenya and Tanzania with a critique of the Debt Sustainability Framework of the Bretton Woods Institutions

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with the cooperation of AFRODAD,
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Preface

Churches look for justice in the North/South relationships. Civil Society and the Churches continue to protest and campaign for debt cancellation. Far too little debt has been cancelled to help achieving the Millennium Development Goals (MDGs). Loan agreements that are odious or illegitimate must be removed from the public records. The report before you calls for the adoption of an instrument by the International Finance Institutions, by which legal debt stocks in developing countries can be significantly reduced and subsequently maintained at sustainable levels. It calls for an instrument moreover, that helps developing countries to apply precautionary policies and be well informed when mobilizing new credit.

In the world of development finance and official debt management, the application of the concept of debt sustainability is somewhat new. Official creditors recognized the concept in their debt relief schemes only with the introduction of the Heavily Indebted Poor Countries (HIPC)-initiative in 1996. They agreed to reduce the level of foreign debt of qualified countries to 250% of their exports and later reduced this threshold down to 150% at their Cologne Summit in 1999. For the first time the G8 and the Bretton Woods Institutions (BWI) acknowledged that it makes sense for a country to define an optimal level of foreign debt, reach and retain it.

In 2004 and 2005 the World Bank and the International Monetary Fund (IMF) continued to develop the debt sustainability idea. A Debt Sustainability Framework (DSF) was designed to help them to determine, how much creditors could lend to Low Income Countries. These credit ceilings are determined through an assessment of the policies and the strength of the institutions of a country as compared to its debt to export indicators. The DSF was under review in April 2006 but has not been significantly changed.

With the Multilateral Debt Relief Initiative (MDRI) of the G8 confirmed by the Bank and the Fund before their Spring Meetings in April 2006 a new concern is spreading. As a result of the MDRI 19 countries will soon become relatively less-indebted countries and another 20 countries would have the same chance, at least in theory. The 19 now hold good credit ratings and therefore could accept offers of the financial markets to extent expensive credit yet without any conditionality. In times of sky rocketing oil prizes this is a interesting alternative for Governments in need to avoid political turmoil at the filling stations of their countries. These so called "free rider"- creditors could bring back unsustainable debt levels in an instant. They are indeed a danger to debt sustainability.

The purpose of this report is to advocate for the adoption of a versatile and sensitive instrument that would help to arrive at fixing a level of debt sustainability based on the interaction of Government, Parliament and Civil Society, include all debts of the sovereign as well as the risks of external shocks. An instrument to determine external debt sustainability that above all would consider the revenue situation of a country and the budgetary resources to be reserved for the Human Rights duties towards its citizens as central indicators.
The report combines the discussion of debt sustainability in three developing countries with a discussion of the aforementioned Debt Sustainability Framework of the World Bank and the IMF. For the International Financial Institutions the three countries selected would come under different categories, thereby barring them from or entitling them to debt relief: Tanzania is a completion point HIPIC-country that also benefits from the recent Multilateral Debt Relief Initiative

Kenya is a country on the HIPC- countries` list but was considered having a sustainable debt level and therefore did not qualify for debt cancellation

Ecuador is considered a Middle Income Country, it is highly indebted and poor but neither benefiting from debt relief nor receiving concessional loans.

EED and Civil Society partners in Ecuador, Kenya and Tanzania undertook it in autumn 2005 to study the question of debt sustainability from a Civil Society and country specific perspective. The process was coordinated by the Institute for Economy and Ecumene "SÜDWIND" in Germany with contributions form the African Forum on Debt and Development (AFRODAD) in Harare, Zimbabwe.

Jubileo 2000 in Guyaquil, Ecuador organised a two day national conference in Guyaquil, with participants from Government, UNCTAD, Academia and Civil Society to define the criteria deemed to be important when defining the debt sustainability of Ecuador. And so did the Kenya Debt Relief Network in Nairobi and the Tanzania Coalition for Debt and Development in Daressalaam with the participation of not only their Governments but also bi- and multilateral institutions such as the KFW, the European Union and the World Bank. During the conferences papers with the latest figures from finance and planning ministries and MDG- departments were presented and questions such as domestic and illegitimate debts and economic shock scenarios were the subject of heated debates.

Following the conferences Jubileo Guyaquil elaborated their own study on debt sustainability in Ecuador, which in an abridged version is part of this document. With the data and orientation provided by the national workshops in Daressalaam and Nairobi as well as by AFRODAD, SÜDWIND undertook to draft the Kenya and Tanzania debt sustainability studies (*which received endorsement*) and form part of this document.

EED has been part of the dialogue of the World Council of Churches with the International Finance Institutions for a number of years now. It has discussed issues such as Governance Reform of the International Financial Institutions, Foreign Direct Investment, Poverty Reduction Strategy Papers, Pro Poor Growth and Debt Cancellation with its partners in developing countries and has facilitated the partners to engage with the World Bank and the IMF. There exists a North/South relationship that is characterized by unfair trade rules and a global financial system that cyclically crashes on the backs of the poor. There is un-reconcilable historical injustice in resource exploitation, ecological degradation, colonialism and slavery. In the perception of Civil Society and Churches in developing countries history must form part of the debtor/creditor relations today.

Wilfried Steen
Director

Debt sustainability: Country summaries and a policy brief

The repeated debt relief initiatives of the recent past, though welcome, are immanent admissions, that a structural solution to developing nations' recurring over-indebtedness is required. Therefore, a versatile and sensitive instrument to determine country specific debt sustainability levels is needed. Although previous debt relief initiatives actually did reduce the debt stock of some – by far not all – countries, they do not fully capture the debt problem many developing countries actually endure. Moreover, they do not follow a human development perspective as can be clearly seen in the three case studies of this report:

Tanzania

While in 2003/4 Tanzania's debt service to revenue ratio was still 36.5%, with the MDRI it would come down to very low levels as soon as the relief becomes operational, because 78% of its debts are owned by the World Bank and the IMF. Today, Tanzania's foreign debt is very much under control. Risks to Tanzania's debt sustainability may still arise from increases of domestic debt and from external shocks. Domestic debt service in 2005 stands at 10% of fiscal revenue (without grants). The repayment of domestic debt stocks has not been considered at all by the Government and the maturity of the instruments used is too short. Tanzania's main export earners are coffee, tea, cotton, cashew nuts etc., lately also gold. The country has gone through numerous external shocks before 2003, because of the fluctuation in the prices of commodities. Civil Society in Tanzania strongly opts for renegotiating the Gold extraction contracts, as the country does not profit from the recent market increases. Calculations for the year 2002 showed that the resource gap in Tanzania to reach the Millennium Development Goals (MDG) was at US $ 550 million. Civil Society advocates for considering the cost of the MDG when defining debt sustainability. Risks from potential external shocks should be hedged and domestic debt must be carefully observed and included in a national concept of debt sustainability. Civil Society wants "MKUKUTA", the national development plan, to focus stronger on Pro Poor Growth.

Kenya

Kenya certainly is heavily indebted but does not benefit from debt relief. Both with regard to the HIPC-debt sustainability indicators as well as in the context of the indicators of the Debt Sustainability Framework (DSF) its debt is considered to be sustainable. Yet, the country's foreign debt service stands at US$ 700 million per annum or 6% of fiscal revenue. 8% of the revenue is spend on servicing the domestic debt. As in Tanzania, vulnerability factors come from domestic debts as well as from external shocks. Unlike Tanzania however, the domestic debt in the country has gone through a sharp increase because of the previous regime's constraints to access foreign concessional finances. Civil Society in Kenya is convinced that many loan agreements taken on during the Arap Moi administration have been signed with criminal intent by the representatives of both creditors and debtors. They are regarded as odious and illegitimate and should not be serviced. Apart from the terms of trade shocks for its coffee, tea, etc. commodities an impending devaluation of the Kenya Shilling of about 30% would push the debt to GDP level to 71% and increase service cost correspondingly.

Government fiscal revenue in 2005 was US$ 3.9 billion. Reaching the MDGs would cost US$ 6.1 billion annually (at a growth rate of 4.3%). In 2005, Kenya had a financing deficit of US$ 2.2 billion to cover the costs to achieve the MDGs. Kenya's debt stock needs to be cancelled so that the debt service can be fully applied to help to achieve the MDGs.

Ecuador

After the year 2000 Ecuador's public debt has shrunk, yet the private external debt has soared up to 40% of the sovereign debt. This is considered a bomb waiting to explode. The Government already once before had to socialize private debt, in order to avoid economic turmoil. Civil Society in Ecuador wants the domestic debt from this operation be cancelled. Civil Society is concerned that despite the wide spread poverty in the country Ecuador is still a net exporter of capital. Even with the price increase of oil Ecuador's sovereign debt is nearly 110% of exports as per 2005. The sovereign debt in that year stands at 248% of the countries budget. Of this budget of US$ 8.6 billion, $ 2.9 billion or 33.4% are ear marked for public debt service. Civil Society wants the Government to renegotiate the Global Bonds, get illegitimate debts such as a shipping deal with Norway cancelled and damages to the countries ecology in the context of resource extraction compensated.

Whether Ecuador will be able to achieve the MDG in 2015 depends on the growth rate. MDG costing by the Ecuadorian Government reveals that with the historic growth rate of 2.4% only one of the objectives (reduction of mothers' mortality) will be achieved. But growth rates beyond 5% have been achieved since 2000, thus the MDG may be achievable. Vulnerability due to external shocks is seen mainly in the context of dangers to the oil production and as a result of the Free Trade Agreement that may be signed with the USA. The latter may pressurize the non-petroleum balance and increase unemployment. Civil Society promotes a Pro-Poor redistribution policy. So far, much of Ecuador's oil proceeds are invested into a fund which to a large extend is destined to pay off Ecuador's debt, the "FEIREP".

Rather then for debt repayment, a much greater amount of this Fund should be invested in human development. Oil contracts should be renegotiated and extraction by nationalised companies favoured. The World Bank categorisation as a Middle Income Country excludes Ecuador from almost all debt relief and concessional finance. But the per capita income of US$ 2,400 creates a wrong picture. Instead the Ecuadorian Civil Society proposes to use the median calculation method for the population's participation in the national income. The median calculation arrives at US$ 640 income. This means that half the population lives with an income of two dollars or less per day. Civil Society suggests to introduce contingency clauses in foreign loan agreements in case of external shocks. Debt services must be subject to the capacity of the state to finance the MDG.

The Debt Sustainability Framework – policy brief

The latest initiative on debt sustainability from the World Bank and the IMF– the DSF – does not address the problem of over-indebtedness and consequently is not a tool for further debt relief. It is an analytical instrument to determine the level of new external financing of developing countries, without necessitating any cancellation or lending action from donors and creditors.

Central concerns with the DSF are:

The discussion about the indicators must take note of the fact, that all of a Low Income Country's (LICs) export proceeds are consumed by imports of essential goods and services unavailable in the country, such as oil, pharmaceuticals, productivity increasing machinery, etc. Most African countries have liberalised their currency regimes, which creates further Balance of Payment constraints. Debt to export is a creditor and investor indicator, not a suitable indicator to refer to the realisation of the MDGs. It must be substituted by indicators related to fiscal revenue.
The impacts of external shocks as well as domestic debts for debt sustainability are not sufficiently considered nor operationalized in the DSF.
The threshold options chosen by the DSF (debt to export levels 100/150/200 for weak, medium and strong performers, respectively) may have become somewhat upset after the MDRI-Initiative. However, the experience of HIPCs, queuing up for years in front of the Completion Point and not reaching it, coincides with reports of the OECD and from Debt Relief International. They make it clear, that the above chosen threshold option in the DSF is too high. Even thresholds of 50/100/150% debts to exports are difficult to reach and sustain for a number of Low Income Countries. Moreover, the use of different modes of Net Present Value (NPV)-calculation (currencies basket related for HIPC, and dollar basis for DSF) doesn't seem to add value but confusion.
With regard to the Country Policy and Institutional Assessment (CPIA), civil society does not believe it makes sense to correlate such diverse factors as macroeconomic policies, property rights, corporate corruption, gender, environmental and trade policies, etc. with foreign debt management into parameters such as weak, medium and strong performing countries. Bank experts thought it "may reflect the ideological tendencies of the institutions compiling the performance ratings." There is no agreement, for instance, on what should be considered a "good trade policy". Institutions such as Transparency International have more transparent methods and are better adapted to make the best evaluation e.g. on institutions. Natural disasters, such as hurricanes, earthquakes, etc. certainly escape the influence of good policies and sound domestic institutions.

Considerations for Debt Sustainability prioritizing Human Development

A more profound Debt Sustainability Framework must deal with the existing problem of over-indebtedness of many developing countries. A substantial reduction of the stock of their debts will be required which will then have to be maintained at a sustainable level. The focus must shift away from export related debt and debt service indicators. Basically, all Low and Middle Income Countries that cannot ensure the Human Rights of their citizens, or the MDGs for a start, require the cancellation of foreign debts with a cut off date of 2004. The February 2005 publication of the World Bank and the IMF on the DSF quotes a figure of US$ 286 billion of debts[1] for all Low Income Countries in 2003. If these foreign debts are cancelled, achieving and sustaining the finances for reaching the MDGs in the Low Income Countries will appear in a different light. Apparently, a considerable part of these US$ 286 billion may consist of illegitimate or odious debts. These need to be identified and written off, unceremoniously.
After the significant reduction of the stock of debts to a sustainable level by the creditors the World Bank and the IMF may then recognize a set of criteria for debt sustainability based on the welfare and development needs of low and middle income countries.
The gap between the existing and the required finances to achieve the MDGs (as a first step to realize Human Rights and Human Development objectives) should be in the centre of the analysis as part of an approach based on fiscal revenue. Therefore, when talking about

[1] (IMF/IDA:March 2005)

indicators, “debt service to fiscal revenue” should be in the centre of the sustainability appreciation. As long as debt service is at the expense of urgent social and economic investment, the debt is not sustainable. New lending must be strictly for economic diversification and productivity increases and can be based on conservative profitability expectations. In Low Income Countries MDG-related social sector budget deficits must be covered by Official Development Assistance (ODA) and Wolrd Bank grants.
All debt of the sovereign must be factored in. The Government's domestic debt, officially guaranteed private debt as well as official and private external debt are debts of the sovereign and decrease by way of revenue reduction the country's ability to invest into the capacities of its people, infrastructure and economy. External debt cancellation must consider domestic debt among the factors that are employed to determine the debt cancellation package. Deeper external debt relief can help a Government to deal with a domestic debt overhang.
Last but not least, the cost of external shocks must be factored in. This includes the cost of economic shock preparedness and/or for covering the premium for insurance schemes for shocks and other models of risk covering and hedging. Recurring economic shocks need the up-front accumulation of reserves to be available immediately after the shock. Bureaucratic procedures defeat the purpose.
To maintain a specified level of debt is no small task for a Government as is seen in all developing and developed countries. The European Stability and Growth Pact with its 3% budget deficit/GDP ceiling is more often violated then respected, notably by EU-member countries like Germany, Italy, France etc. Germany has it in its constitution, that the debt service in the budget should never exceed amounts budgeted for new investments. But because of loopholes in the interpretation of the law, for the past 10 years this constitutional clause is repeatedly violated by successive Governments. Switzerland has recently enacted in its constitution, that no Swiss Government shall spent more than constitutes its revenue. Now, after a few years of transition, the country indeed seems to have reached this goal. Keynsian economists would call such "starving the beast"- policies entirely inappropriate for developing countries (and for others as well), who are in need of a continuously high investment level to finance their development.

There are only 20 developing countries that have both profited from the HIPC as well as from the MDRI debt cancellation initiatives in recent years. Today, they enjoy higher credit ratings and may be tempted to accept new loan offers from the money markets. The OECD-creditors are extremely concerned, that building upon their debt cancellation initiatives, private creditors get a "free ride" to earn market interest rates by extending high prized loans to relatively less-indebted developing countries.

Free riders should indeed not be allowed to sent developing countries from the frying pan into the fire of over-indebtedness. Civil Society in developing countries must monitor any fresh shouldering of new debts by their Governments. Wherever the capacity of accepting debt in the name of the sovereign state rests solely with the President, Prime Minister or Finance minister without prior public deliberation, civil society must struggle to achieve the proper participation of Parliaments, academia, the business world as well as think tanks and NGOs. All finance records must be public and entirely transparent.
Whether debt is foreign public or foreign private or domestic public or publicly guaranteed, it must not any longer be allowed to havoc national budgets and prevent them from achieving the Millennium Development Goals. Finance ministers of countries that are signatories to the Covenant on Economic, Social and Cultural Human Rights should be aware they may commit a Human Rights violation if they remit debt services to creditors in a budgetary situation, where the Human Rights of fellow citizens are not respected, ill-protected and far from being fulfilled.

Foreign Debt and the Millennium Development Goals

Foreign Debt has alarming levels

According to the latest estimates available from the World Bank, in 2003 total foreign debt reached a new record high of US$ 2,500 billion. After a stagnation in previous years, foreign debt has increased again dramatically in 2003. High indebtedness has negative implications for the economies of indebted countries as it leads to large amounts of financial resources being diverted towards servicing the foreign debt, thus reducing national, as well as international investments.

Figure 1: Total Debt Stock of all developing countries

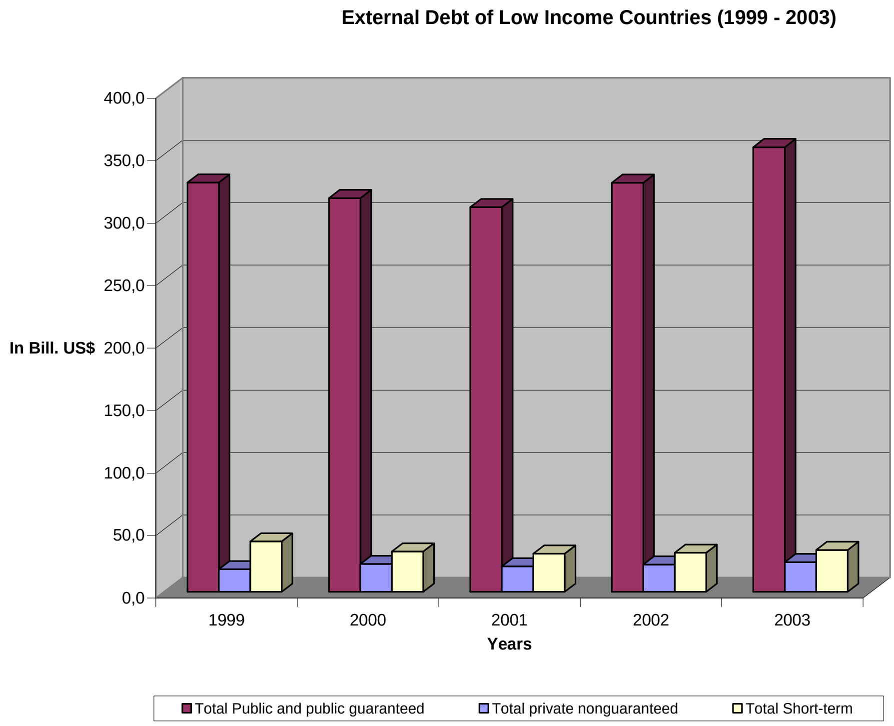
Source: World Bank, 2005

The foreign debt crisis has been solved neither for middle-income countries like Brazil, Kenya or Ecuador, nor for highly-indebted low-income countries, such as Tanzania. At the same time, except for rare exceptions, mostly in Asian countries, poverty has not been substantially reduced. Investments that are needed in education, health and infrastructure are reduced because the public sector is obliged to prioritize the servicing of foreign debt. Besides being an enormous obstacle to economic growth, the high level of indebtedness has negative social consequences.

Foreign Debt and Debt Relief in Low-income Countries

In 2003, foreign debt of low-income countries increased by more than $33 million, reaching $424,472 million. Of that amount, $356,039 million was public or publicly guaranteed debt as can be seen in figure 2. Low income countries owed $101,676 million to the World Bank of which, $91,587 million was owed to the International Development Association (IDA), the World Bank organization that lends at 0% interest and directly subsidizes the poorest nations. Thus, the IDA has become a serious concern for the majority of poor nations, since it represents 90% of their debt with the World Bank. Any solution to the foreign debt crisis of low-income countries must necessarily go through a reduction of their debts with the IDA (World Bank 2005).

Figure 2: External Debt of Low Income Countries (1999-2003)



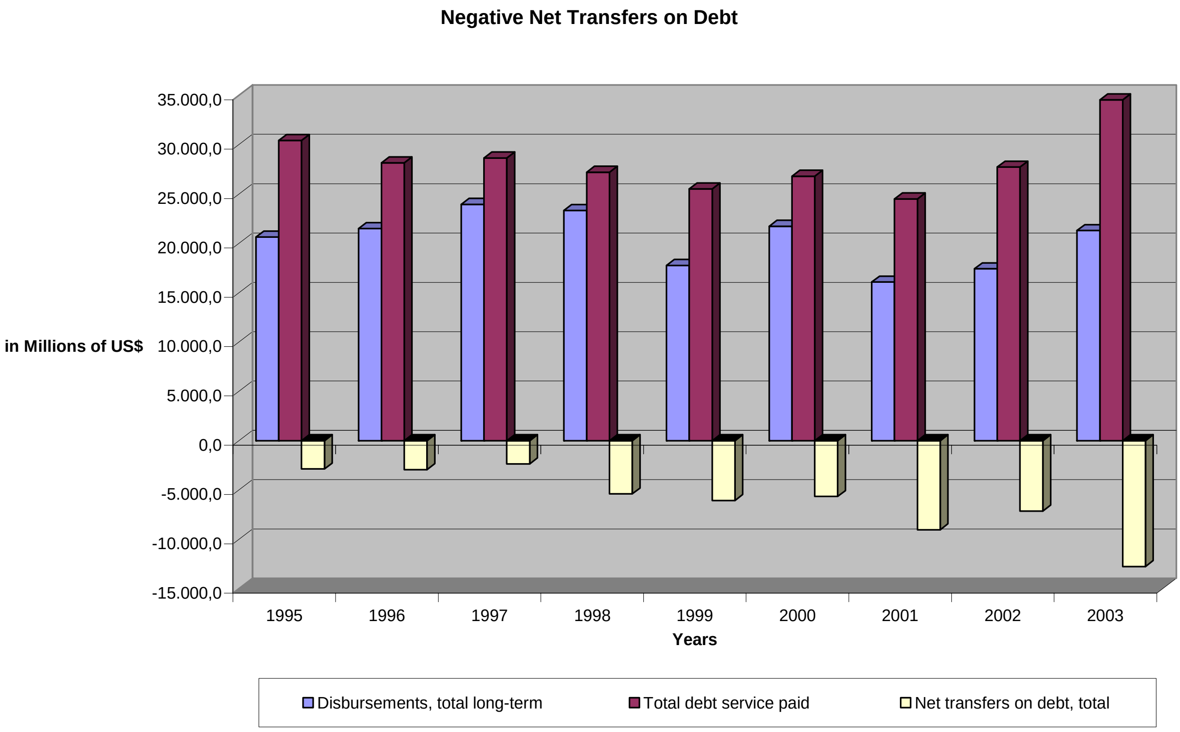
Source: World Bank, 2005

To tackle this multilateral debt was part of the aim of the Heavily Indebted Poor Countries (HIPC) initiative. As of March 2006, 18 countries have passed the completion point, at which they have received irrevocable debt relief. Another 11 have reached their decision point and receive interim relief. The irrevocable and interim relief of the 29 HIPC amounts to US $ 59,248 million (IMF/IDA, 2006).

The Group of Eight national leaders (G-8) increased the cancellation of debt owed by eligible countries at their summit in Gleneagles, Scotland 2005. The plan was subsequently endorsed by the Development Committee of the World Bank and the International Monetary Fund (IMF) at their annual meetings in September, 2005. The debt relief plan – now known as the Multilateral Debt Relief Initiative (MDRI) – is currently estimated to be worth an additional US$37,000 million over the next 40 years. According to the World Bank, IDA's total share for providing debt relief under the G8 proposal is $42,500 million. These costs would rise to a total of $56,500 million if a further 8 IDA countries qualified for the HIPC initiative by the end of 2006, which is the deadline for including new countries as beneficiaries.

As can be seen in the figure 3, according to World Bank statistics, despite the HIPC initiative, low-income countries still pay more for debt services (capital and interests) than the disbursements they receive with new credits. Thus, they have a negative debt transfer which could indicate a situation of debt unsustainability.

Figure 3: Net Transfer on Debt

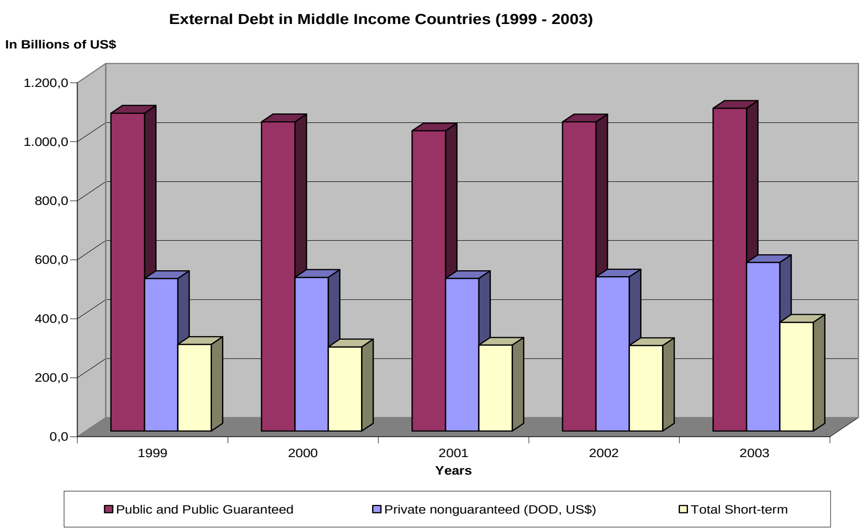


Source: World Bank, 2005

Foreign Debt and Debt Relief in Middle-Income Countries

In 2003, the foreign debt of middle-income countries was $2,130 billion. Of that amount, public and publicly guaranteed debt was $1,024 billion. Middle-income countries only owe $121,172 million to the World Bank, most of it (US $ 98,947 million) is owed to the International Bank for Reconstruction and Development (IBRD), a World Bank Organization that lends at low interest rates. Thus, Middle Income Countries have a much higher share of private (non guaranteed) debt. Moreover, the World Bank and other multilateral creditors play a minor role than for Low Income Countries.

Figure 4: External Debt of Middle Income Countries (1999-2003)



Source: World Bank, 2005

For middle-income countries, there exists no debt relief initiative to solve the excessive foreign debt problem that these countries also live. Generally, it is argued that they have access to external credits and to the international capital market, and that their liquidity can be maintained with fiscal discipline. However, countries such as Ecuador and Argentina in Latin America and Indonesia in Southeast Asia have deep unsustainable debts that limit their possibilities of entering a path of economic growth, increasing social services and reducing poverty.

Millennium Development Goals: Costs and Financing

Estimating the costs of achieving the MDG is a hard task on which important international institutions are currently working, especially United Nations' related agencies[2]. There are two methods to calculate the costs: one method is based on global costing exercises and the other is based on national calculations that can be scaled and added to determine the global costs. The first global estimates were presented in the so-called "Zedillo Report" prepared for the Monterrey Conference in 2000. It calculated an additional US$ 50 billion yearly of Official Development Aid (ODA) for all countries.

Country level estimates have been prepared by the United Nations Millennium Project (2004). "Our results suggest that in a typical low-income country with an average per capita income of US$ 300 in 2005, external financing of public interventions will be required on the order of 10–20% of GDP. For these countries, the costs of achieving the Goals will need to be split roughly evenly between domestic finance and ODA. Meanwhile, middle-income countries will be able to finance essentially all investments in the Goals without resorting to external finance—unless excessive debt burdens constrain them." (United Nations Millennium Project, 2004, 55).

Scaling up from these country-level results, the study concluded that the total ODA needed to rise substantially from current levels in order to achieve the MDGs, but that the total requirements would be less than the ODA target of 0.7% of rich countries' national income. In total, the institution found that the costs of meeting the MDGs in all countries are in the order of $121 billion in 2006 and rising to $189 billion in 2015, even if domestic resources will increase. Several countries will "graduate" from the need for aid to self-financed investments in the MDGs before 2015.

Domestic efforts to reduce poverty are very important and generally mean that governments of poor countries must mobilize greater resources to increase their investments on the MDGs, until they reach 4% of their GDP in 2015. However, domestic savings are simply too small to supply the needs of reducing poverty by half. The internal effort by local governments must be complemented with an external effort by the international cooperation. But the problem is not just increasing aid, it must also be made more transparent and participatory for the target groups.

Thus, financing the MDGs is a major challenge to international cooperation. Since the beginning of 1990s OECD countries have cut their ODA in real terms and it was only until 2001 that the share of ODA with regard to Gross National Income (GNI) started to rise again. Up to now, an international consensus on the need to increase ODA to fulfill the additional requirements has been achieved. How does this consensus match with reality? A short look at the figure 5 shows that the problem of financing the MDGs is far from being solved. Although ODA has risen in absolute terms from US$ 69.1 billion to US$ 79.5 billion and is expected to rise further until 2010, these are still moderate results compared to what is needed.

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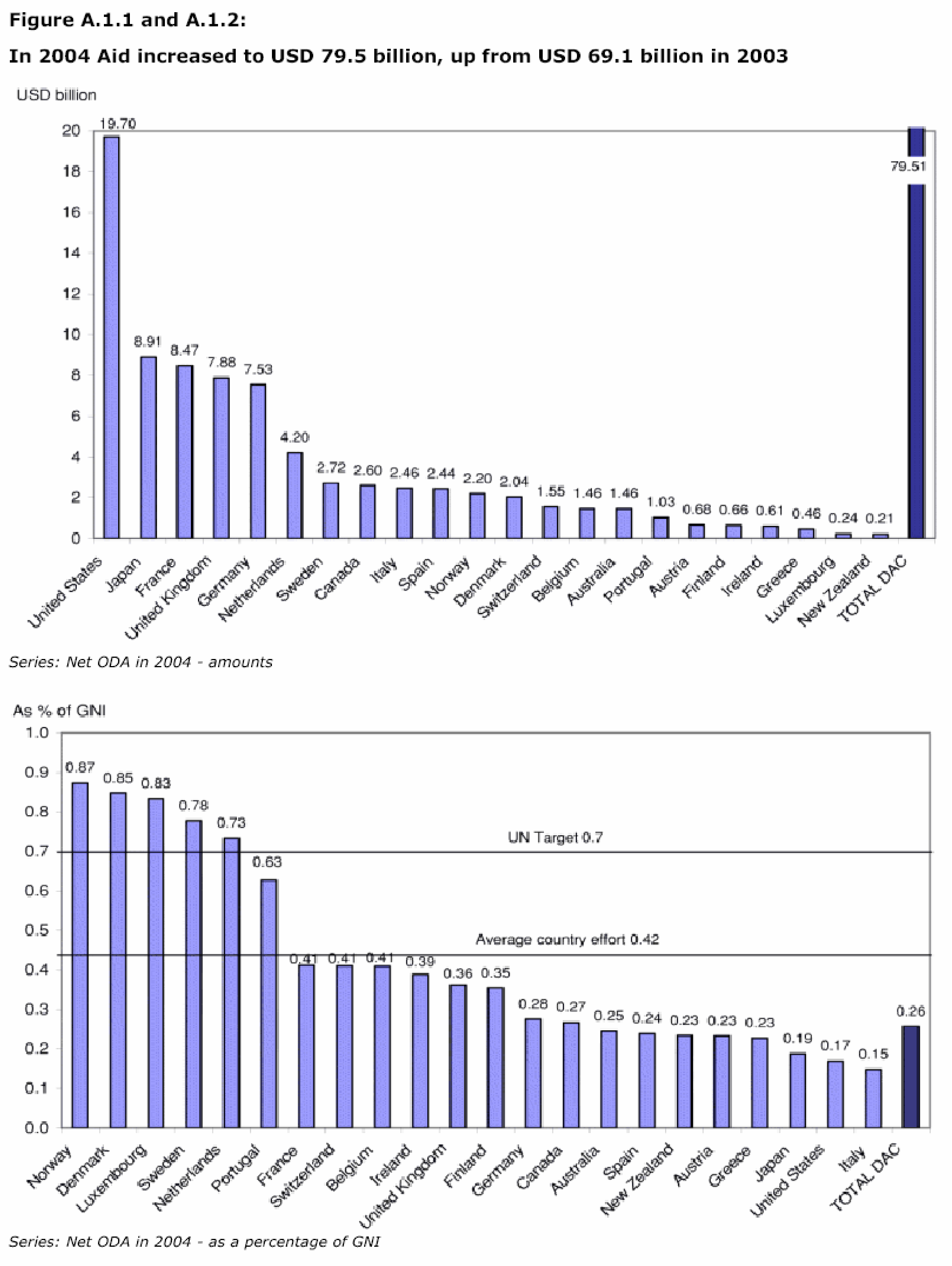
[2] The Report prepared for the United Nations by the High-Level Panel on Financing for Development (known as the Zedillo Report - UN, 2001) and a study at the World Bank by Devarajan et al. (2002).

Figure 5: Official Development Aid of OECD countries

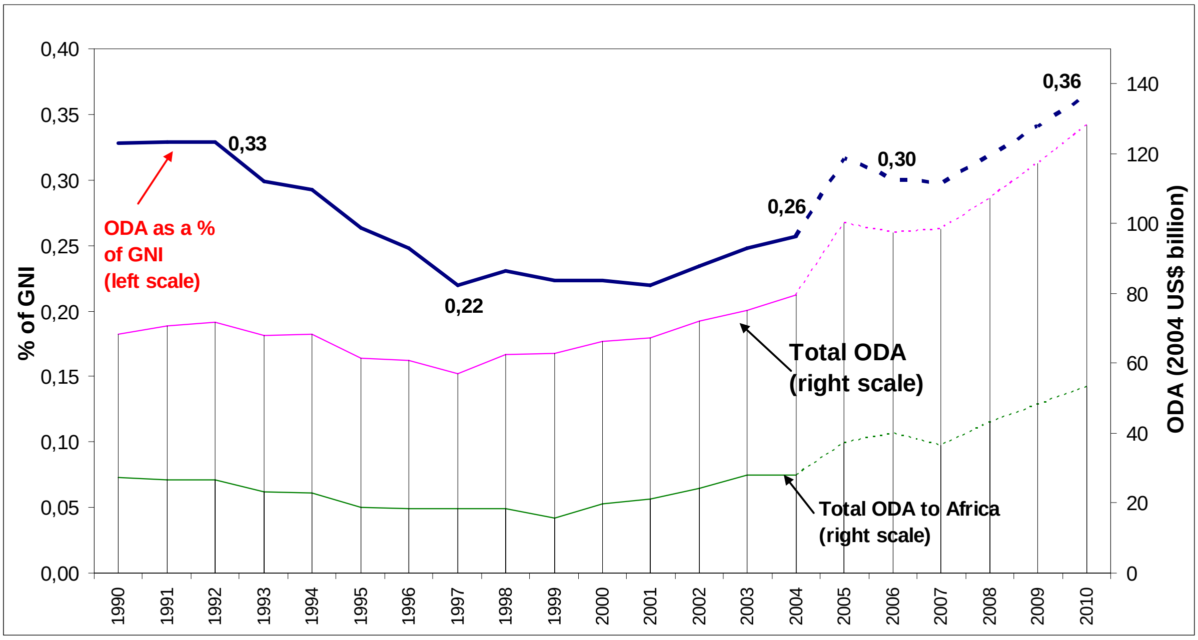


Source: OECD, 2006

The Development Assistance Committee (DAC) of the OECD celebrates the "exceptional amount" with which ODA has risen in 2005. Moreover, numerous countries have promised to further elevate their ODA so that by 2010 the ratio is expected to reach 0.36% of GNI. However, this is still far from the accorded 0.7% target, which anyway seems to be forgotten

and out of reach for the foreseeable future. So far, only five countries (Norway, Denmark, Luxemburg, Sweden and the Netherlands) comply with it, with Portugal at least coming close by (0.63%). Moreover, even the DAC sees the pledges of its member states for the years to come not at all as a "done deal" (OECD, 2006: 15ff.).
It must be noted that the increase in ODA shown in figure 5 must be interpreted with care. A good deal of the increase in 2005 is due to the pardoning of debt cancellation agreements for Iraq and Nigeria. Due to natural disasters such as the tsunami catastrophe in the Pacific, the Hurricane season in the Caribbean and the earthquake in Pakistan, there was also a sharp increase in emergency aid. "So an apparent 'boom' in ODA is likely to be in the short term. But a good deal of it will not imply enhanced resource transfer to the vast majority of developing countries" (OECD, 2006: 18).

Figure 6: Official Development Aid in OECD countries 1990-2010



Source: OECD, 2006.

Increasing the amount of resources is not the only thing that is needed. The composition of ODA must change as well. According to estimates by the UN Millennium Project, at least 80% of ODA must be redirected to fulfilling the MDGs. Moreover, it is necessary to eliminate the uncertainty that has characterized international cooperation until now: Aid must become predictable to the recipients. It is also important to increase the quality of aid so that, in countries with good policies, it returns the expected results. This means that donor countries must greatly increase the efficiency of their aid, introduce coherence and coordination amongst their diverse programs, and harmonize programs and projects in such a way that they capture the multidimensional character of the goals. If there is good governance, emphasis must be placed on budget support and country–led poverty reduction strategies.

The Debt Sustainability Framework of the World Bank and the IMF

The World Bank and the International Monetary Fund (IMF) have established a referential framework to determine debt sustainability for low-income countries called the Debt Sustainability Framework. It is specified for Low Income Countries outside HIPC or countries that have graduated from HIPC. The main objective of the Framework "is to guide borrowing decisions of low-income countries in a way that matches their need for funds with their current and prospective ability to service debt, tailored to their specific circumstances." (IMF/IDA, 2004: 4). The DSF is a complex instrument, which includes a lot of very critical issues with technical and policy aspects. Therefore it is necessary to examine whether this

new instrument has truly included the rationale of the MDG in its operationalization of debt sustainability.
Compared with previous initiatives, the DSF is progressive when looking at the macroeconomic definition of foreign debt sustainability. The initiative tries to include several macroeconomic aspects of sustainability, in the sense that it considers not one, but five debt burden indicators: three stock indicators and two debt service indicators. Secondly, the framework's attempt to link foreign debt sustainability with the additional finances needed to reach the MDGs and its emphasis on the need to increase the concessionary quality of international financing, at least for low income countries, are also small steps in the right direction. Finally, the attempt to adapt aid to the specific characteristics of indebted countries is positive, although the use of the CPIA for this objective may not be the best way. This is, however, where in our view the positive move of the DSF comes to an end, and must be related to important critical aspects to be mentioned in the following.

A sustainability analysis only makes sense if it includes the level of foreign debt relief needed to deal with a debt crisis that already exists. The DSF has not been created as an instrument to solve the current debt overhang problem. The network of European non-governmental institutions involved with foreign debt, EURODAD, sees the main weakness of the DSF "in its quest to look only at the future whilst taking past legacies as fixed and given, the proposal does not consider the need to achieve debt repay ability beyond the proposed thresholds of the shorter term. It thereby somehow forgets that the "overhang" of current debt stocks is a fundamental factor." Civil Society needs to evaluate the DSF by asking if it helps achieving the goal of generating adequate finances for reaching the MDGs and of maintaining debt sustainability. In our opinion that is not the case. To support this thesis, it is necessary to critically analyze five basic elements: the indicators, the CPIA, the chosen threshold limits, the manner in which external shocks are handled, and the type of debt included, which will be done in the following.

Indicators

The DSF uses five indicators to determine the foreign debt burden: Three stock indicators to measure the future burden resulting from the existing debt and two service indicators to measure the immediate effect of the debt burden. The repercussions of a debt burden on the country's economy vary from one nation to the next. That is why it is important to determine the weight of the debt stock, not only in terms of its most important liquidity variable, which is export earnings, but also with respect to national income, investments and consumption, i.e. the Gross Domestic Product (GDP) or Gross National Income (GNI), as well as with respect to fiscal income. The following can be said about these indicators:
a) Debt outstanding to exports of goods and services measures the ability of a country to repay its debt in a single year.
b) Debt outstanding to GDP or GNI ratio compares the amount of debt outstanding to the size of the economy.
c) Debt outstanding to fiscal revenue measures the capacity of government to service debt.
To obtain the two service indicators, debt service is related to export and fiscal revenue.
d) Debt service to exports shows how much of the export earnings has to be spent on debt service in a single year.
e) Debt service to fiscal revenue defines the limits of resources available in the total budget for other spending priorities of the Government, such as for social and economic development.
As each indicator has its merits and limitations, a combination of all five indicators is needed to show an adequate picture of the debt burden. For some countries with a very open economy and high export earnings, the low debt burden with respect to exports is not necessarily indicative of high fiscal revenue and vice verse. However, these indicators are an important area of international debate since the very start of the HIPC- Initiative. The

selection of sustainability indicators and threshold limits is a political decision, which is strongly influenced by the willingness of the donor countries when it comes to the point of distributing their ODA.
Generally, these indicators refer to debt service when emphasis is placed on liquidity or to debt stock when solvency is emphasized. For governmental entities, solvency occurs when the present value of all present and future expenses does not exceed the present value of all present and future income. Liquidity is the existence of cash funds to pay the current obligations. According to the IMF, the liquidity problem is usually faced by indebted middle-income countries such as Ecuador or Argentina, while the low-income highly indebted countries with poor access to capital markets (HIPC) face solvency problems. In fact, the boundary between liquidity and solvency problems is difficult to establish.
On the side of the denominator it can constitute a big problem that exports are taken as the main indicator of liquidity. Due to the liberalization of the capital account, implemented particularly under the BWI's Structural Adjustment Programs, the states' access to export earnings is limited in many countries. Available foreign equity is often used for priority sector imports such as energy, pharmaceuticals or productivity increasing machinery or to repatriate foreign investment profits. Also, export earnings are mostly the private sector's income and not the public sector's. Thus, export earnings do not reflect accurately the public sector's payment capacity. It is fiscal revenue that reflects more accurately a government's ability to assume obligations with internal or external creditors.
Therefore, the aspect of fiscal revenue, i.e. the capacity to pay under the recognition of the government's responsibility of human development expenditure, must become the centre of concern, rather than export earnings. It is the relation between debt service to fiscal revenue that constitutes a clear signal of a country's chance to head for the MDG, as it indicates how much of the revenues has to be spent on public debt servicing and how much - with other necessary expenditure - remains for social expenditure and achieving the MDG. However, the World Bank in its latest studies tends to eliminate the fiscal burden from debt analysis, ignoring the relationship between debt stock or debt service with regard to fiscal revenue. One maintains that fiscal revenue data is not very reliable and that there is a risk of deceit and moral hazard. These arguments hold little credibility, more so, as one of the main requirements to access credits from the IMF for Poverty Reduction and Growth programs is transparency and a good management of budget information.

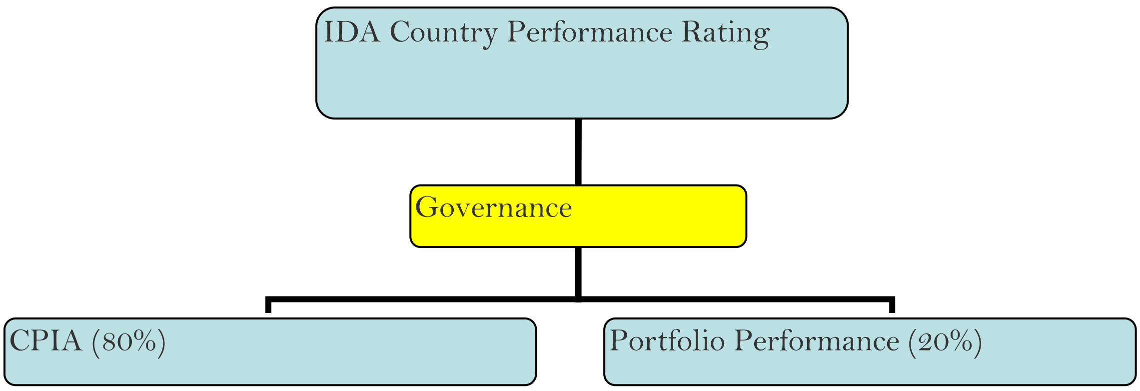
The example of Tanzania shows very clearly the importance to revive the relation between debt burden and fiscal revenue: While the debt stock to GDP ratio was at 40% in 2003/2004, i.e. at sustainable levels, the burden of public debt to fiscal revenue was at 408%, i.e. high above the 200% limit considered as sustainable. This can be explained by the existence of a big informal and non-monetary sector that contributes to the GDP without resulting in a corresponding amount of tax revenues. A similar situation is faced by many low-income countries that traditionally have a substantial informal sector.
The BWI's definition of sustainability is confined to its own objective: To assure fiscal equilibrium and the balance of payments. Therefore, it contains only the macroeconomic aspects, such as fiscal deficits and taxing policies on the one hand or exportation and economic growth on the other. In the their logic, it is necessary to maintain fiscal discipline, that is, to reduce public expenses, in order to avoid falling into a need for fresh loans and abandoning the "sustainability path" (IMF 2002, 6).

The Country Policy and Institutional Assessment (CPIA)

The big novelty of the DSF with respect to previous instruments, including the HIPC Initiative, is that, aside from the purely macroeconomic indicators, it also includes the quality of policies and institutions of the debtor countries (IMF/IDA, 2005, 19-21). This has been incorporated because, based on the empirical research done by the World Bank (Kraay/Nehru, 2004) and the IMF, they have come to the conclusion that the probability of

a country falling into debt distress depends on the quality of its institutions. For instance, countries with weak institutions that are infested with corruption, bureaucratic hassles, authoritarian governments and little democracy, belong to the group of "poor performers". Others that have good quality institutions, little corruption, healthy fiscal policies and a stable trajectory of macroeconomic stability are the so-called "strong performers".
To determine the quality of indebted country's institutions, the DSF uses a World Bank instrument called the Country Policy and Institutional Assessment (CPIA) index. The CPIA index groups 20 indicators into 4 broad categories: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions (See box). Countries are rated on their status in each of these performance criteria, with scores from 1 (lowest) to 6 (highest). The degree of objectivity of the CPIA must be questioned, as the majority of the indicators are based on subjective assessments from the World Bank's staff. This is one of the grave dangers of using the CPIA, which is even recognized by the document itself: it alerts users to be cautious, as the process is not yet consolidated (IMF/IDA, 2004, 22). Moreover, there seems to be little informational value of an index that tries to synthesize such diverse aspects as trade policy, gender, property rights, social protection, etc.
To produce each country's overall performance rating, to which debt indicators are related in the DSF, the World Bank applies a heavily weighted average of the CPIA score (which counts for 80% of the overall rating) plus the government's portfolio performance score (which counts for 20%).

Figure 7: Composition of the IDA Country Performance Rating



The Bank converts the numerical performance to five "letter" grades (A,B,C,D and F), placing each government in one of five quintiles, based upon the quality of its performance in each area. Table 1 presents the policies performance Rating for Low-Income Countries according to the World Bank indicators:

Table 1: Low-Income Countries' quality of policies performance ratings for 2003

Country	IDA Country Rating	Governance	Overall CPIA Rating	Portfolio Performance
Angola	F	F	F	C
Bangladesh	C	D	B	F
Benin	A	A	B	A
Bhutan	A	A	A	A
Burkina Faso	B	B	B	B
Burundi	D	D	F	A

Cambodia	F	F	D	F
Cameroon	C	D	C	D
Central African Republic	F	F	F	F
Chad	D	D	D	F
Comoros	F	F	F	D
Congo, Dem. Rep.	D	D	D	C
Congo, Rep.	D	D	D	C
Ivory Coast	D	D	D	F
Eritrea	D	D	D	C
Ethiopia	C	B	C	C
Gambia	C	C	D	D
Ghana	A	A	B	D
Guinea	D	D	D	D
Guinea-Bissau	F	D	F	F
Haiti	F	F	F	N/R
India	A	A	A	C
Kenya	C	C	C	F
Kyrgyz Republic	C	C	C	C
Lao PDR	D	F	F	A
Lesotho	C	C	C	F
Madagascar	A	A	B	A
Malawi	B	B	C	C
Mali	B	C	B	C
Mauritania	A	A	A	A
Moldova	C	C	C	C
Mongolia	C	C	C	C
Mozambique	B	B	C	C
Nepal	B	B	B	D
Nicaragua	B	B	A	F
Niger	D	D	D	D
Nigeria	F	F	F	F
Pakistan	B	C	B	C
Papua New Guinea	F	F	F	N/R
Rwanda	B	A	B	C
St Thomas and Prince	D	C	F	B
Senegal	B	B	A	C
Sierra Leone	D	C	D	D
Solomon Islands	F	F	F	F
Sudan	F	F	F	N/R
Tajikistan	D	D	D	
Tanzania	A	A	A	C
Togo	F	F	F	F
Uganda	A	A	A	B
Uzbekistan	F	F	F	C
Vietnam	C	D	A	C
Yemen, Republic of	B	C	B	C
Zambia	C	C	C	C
Zimbabwe	F	F	F	F

Note: Low income countries are those in which the 2003 GNI per capita (calculated using the World Bank Atlas method) was not more than $765. In order to obtain the IDA country rating in column 2, the Bank applies the (absolute) Rating of the "governance factor" in column 3 to the averaged ratings in columns 4 and 5.

Source: Alexander (2005)
There are many reasons for questioning the use of the CPIA in the DSF. Is it really possible to reduce such diverse factors as macroeconomic policies, property rights, corporate corruption, gender and environmental policy, trade policy, etc. together with foreign debt management into a single number or parameter as the World Bank does (UNDP, 2005: 6). Probably not. This aspect of the CPIA had already been questioned by World Bank experts who also point out that "a potential drawback of subjective data from polls of experts is that this kind of data may reflect the ideological tendencies of the institutions compiling the performance ratings." (Kaufmann et.al., 2003, 22). Precisely this fact makes the possibility of discriminating unfairly against some countries and benefiting others very realistic. Simply take countries such as India, which even though they have access to the same funds as other smaller countries, can maintain indifferent to the evaluations made in the CPIA. The same criticism can be read in the UN draft (UN, 2004: 6) prepared for the Multi-Stakeholder Consultations on Sovereign Debt and in the Papers prepared for the G-24 (Kappagoda/Alexander, 2004, 17/18).
Moreover, the judgments on good policies are very subjective and, to a certain degree, ideologically determined. "The CPIA rates the extent to which a government has adopted market friendly economic policies such as liberalization and privatization in the context of strict budget discipline and developed institutions, particularly those that protect property rights and promote a business-friendly environment" (Kappagoda/Alexander, 2004, 11). There is no agreement, for instance, on what should be considered "good trade policy" or on the distributive effects of certain macroeconomic policies that may affect fiscal discipline in the short term. For many, the World Bank is not the institution that can make the best evaluations on institutional topics. In the United Nations system, there are other institutions that have greater expertise in this area. Also, institutions such as Transparency International have more transparent methods and better adapted than the fuzzy indicators used by the World Bank (Herman, 2004, 3). Added to that is the fact that, in terms of CPIA, the Bank finds itself in a double conflict of interests: On the one hand, the Articles of Agreement prohibit the World Bank Group from any interference in a country's political affairs and, on the other hand, in terms of the IDA funds, the Bank acts as a creditor.

The debt thresholds

In view of the fact that experience has demonstrated that debt distress situations are more probable in countries with weak institutions, debt burden thresholds for such countries are relatively low, while they are higher for countries with strong institutions, as demonstrated in table 2.

Table 2: Indicative Policy-Dependent Debt and Debt Service Indicators (%)

	Assessment of Institutional Strength and Quality of Policies		
	Poor	Medium	Strong
Present Value to GDP	30	45	60
Present Value to Exports	100	150	200
Present Value to Revenue	150	200	250
Debt Service-to-Exports	15	25	35
Debt Service-to-Revenue	20	30	40

Source: IMF/IDA (2004/Feb.2005)
There are strong criticisms to the document with respect to the threshold levels used to denote the moments when debts become unsustainable. A comparison with the threshold levels used in the HIPC Initiative, or those used by other independent institutions, shows that the DSF framework rather is a step backwards and makes it harder for precisely those debtor countries with medium and strong performance. While the HIPC Initiative set a

minimum threshold value for Present Value to Export of 150%, the DSF uses a threshold value of up to 200% for "strong" performers.

Table 3: Sustainable Debt Thresholds

	Present Value to Exports	Present Value to Revenue
HIPC Initiative	150	250
Debt Relief International	140	151
IMF	180	189
World Bank	190	201

Sources: IMF/IDA (2005), Martin, M. (2005)

Table 4 shows ten Low Income Countries with three of the debt indicators, sorted by the quality of their institutions according to the World Bank's analysis. As can be seen, all "strong performers" comply with the threshold limits, although they still have high levels of indebtedness which would partly qualify them for further debt relief under the HIPC-Initiative.

Table 4: Sustainability Indicators according to quality of institutions

Country	Present Value to GDP	Present Value to Export	Debt Service to Export
Strong	60	200	35
Uganda	33.1	288.4	10.2
Tanzania	23.1	156.2	3.5
Honduras	46.8	124.5	16.0
Ghana	41.0	101.1	5.8
Medium	45	150	25
Bolivia	23.5	122.4	32.3
Cameroon	53.4	184.0	13.6
Kenya	37.0	153.4	15.5
Malawi	46.6	175.7	7.3
Poor	30	100	15
Congo DR	147.3	818.9	90.3
Haiti	23.3	174.4	5.8

Source: IDA (2004, 19)

Measuring the distance to boundaries:

What happens if a country's debt is sustainable in only four of the indicators, but not in the fifth indicator? Considering that this could be a very common situation, and in fact can already be seen in some of the countries in table 4, the BWI are trying to overcome it by measuring the distance between the specific indicator and its threshold. With the help of these distances, they try to determine how close (or far) a country is with respect to the threshold. A large negative distance indicates a high degree of unsustainability, while a high positive distance indicates a positive, comfortable degree of sustainability. If we take Cameroon, for example, with the above mentioned figures, the distance to the threshold for the first indicator would be calculated as follows:

$$(45.0 - 53.4)/45.0$$
$$= -8.4/45.0$$

= -0.187 |*100
= -18.7%

In the same manner, the distance would be calculated for the other indicators resulting in -22.7% (Present Value to Export) and 45.6% (Debt Service to export) respectively. Notice that, according to this framework, Cameroon has a negative or unsustainable debt for the first indicator, while the other two indicators show a positive degree of sustainability, especially the current debt service to export indicator.

Determining the country's debt distress:

Although among the five indicators proposed by the BWI there are also Present Value to Fiscal Revenue and Debt Service to Fiscal Revenue, at the end of the day these two important indicators are not included in the final measurement. Rather, the remaining indicators that result from the debt stock, that is Present Value to GDP and Present Value to Export, are reduced to a single indicator using the average. Thus, in the end, there are only two indicators: an average stock indicator and an average service indicator, both of them exclude the debt burden with regard to fiscal revenue. In our example, these indicators are:
Stock indicator (average):

Stock indicator (average):
(-18.7% - 22.7%)/2
= -41.4%/2
= -20.7%
Debt Service indicator:
45.6%

According to the proposed mechanism, if one of the average indicators results in a negative value, that is, it exceeds the sustainability threshold limit, then that indicator will be taken as the overall indicator that determines the country's sustainability performance. Thus in the case of Cameroon, the overall sustainability indicator would be -20,7%

A traffic control system to avoid accidents:

The overall resulting indicator determines the type of assistance a country will receive. This is done using a set of colour codes, like stoplights: red, yellow and green.
"Green Light" means that a country is more than 10% below the threshold limit. These countries can access IDA credits and have greater access to funds.
"Red Light" means that a country is more than 10% above the threshold limit. These countries cannot access IDA credits, instead they receive donations though in a lesser amount.
"Yellow Light" indicates an intermediate situation, that is, the country is in the range between 10% below and 10% above the threshold limit. IDA will give them 50% as credits and 50% in grants.
Applied to our example, Cameroon would have a negative overall indicator of -20,7% which would determine a Yellow Light because it is less than 10% beyond the threshold limit. So, in spite of the fact that Cameroon has a very positive Debt Service indicator of 45.6% well

below the threshold limit, which should result in a Green light, Cameroon would be defined as a cautionary state and would thus obtain 50% IDA credits and the remainder as grants in lesser amounts.
There are three main criticisms with regard to the debt thresholds: The first has to do with the level itself which defines sustainability, especially in combination with the CPIA for the medium and strong performers. As we have seen, they are actually worse off than they were under the HIPC-Initiative. Many of them, especially the good performers are now excluded from grants. Rather, they are induced to indebt themselves to higher levels. The question remains whether this really is a reward for their efforts to good governance, or rather a punishment.
The second and third criticism arises at the point when the framework is made operational. In calculating and reducing the indicators, the two measures for debt burden with regard to fiscal revenue are dropped. This excludes the most direct relation between the current debt burden and the means a government actually has to pay it off. These indicators are even more important with regard to the MDG. They would allow insight to the government's possibility to invest in achieving the MDG, once the obligations for debt service are complied with.
The third criticism has not yet been mentioned and constitutes an ongoing failure in the new DSF, which is the use the stock's Present Value instead of their nominal value. This choice has been strongly criticized by independent institutions such as UNCTAD and expert institutions such as the Debt Relief International (Martin, 2004: 13/14). The Present Value of debt becomes smaller, the lower the interest rate, i.e. the further the interest rate is away from the market interest rate. Since most of the loans to low-income countries are concessionary loans, the present value of the debt stock usually is much smaller than its nominal value. Thus, the debt burden measured at its Present Value will always be less than its nominal value. In their analysis, creditors prefer this method to measure the degree of concessionality of the loans. Moreover, it makes costs comparable among them, since it allows them to calculate the cost of opportunity in case they have to cancel or reprogram payments. For the debtor, however, the Present Value method has the disadvantage that it makes the debt burden appear to be less than what it actually is. For this reason, the HIPC governments would prefer to work with the debt stock at its nominal value.

External Shocks

In the present world, domestic political decisions are strongly influenced by external factors that escape the control of the governments especially of small economies (Kappagod/Alexander, 2004, 17/18). These risks come not only from internal governance situations, but also from the uncertainties of financial markets and the contagious effects of the foreign debt crisis. Added to that is also the vulnerability with respect to natural disasters such as hurricanes, earthquakes, etc. which also escape the influence of local policies and domestic institutions. Although the different sources of risks for falling into a state of unsustainability are included in the conceptual framework, it is among the greatest weaknesses of the DSF that external shocks are assigned very little importance.
The issue of exogenous shocks is recognized in the study (IMF/IDA, 2004, 24 and 40), but not in its true dimensions. So-called "debt distress" is frequently caused in low-income countries by exogenous shocks that cause liquidity problems. For instance, the adverse shocks that usually result from a fall in the price of a country's main export products or from the instability of the exchange rates of the main international currencies are not under the control of the national authorities of the debtor countries. Often, the unexpected interruption of donor support can cause serious liquidity problems in a debtor country. Kenya, for example, had to rely on an increase of domestic debt in the beginning of the nineties due to a suspension of donor aid.

Of them all, however, the unstable prices of their main export products are the external factor that causes the greatest problems to the liquidity of low-income countries. Sensitivity to external shocks is particularly high when the country's economy depends on few agricultural products that are sensitive to price fluctuation and/or to climatic conditions. Both low income countries in our study, Tanzania and Kenya, suffer from the recent high of oil prices, which constitutes an external shock on the import side. The contrary is the case in Ecuador, an exporter of crude oil: GDP growth in recent years is almost entirely due to high income on crude oil, which is spent to a large extent on debt servicing. A sudden fall of the oil price would destabilize the current situation, generating pressure to fall into more domestic or external debt.

Hence, in times of external shocks the government faces strong financial shortages, compelling it to somehow raise its revenue to finance its expenditures. This can result in further external or domestic borrowing, as in Kenya, to mitigate economic and social impacts of external shocks or in increasing taxes and tariffs. Consequences of these policies are mostly negative: increased debt burdens, higher pressure on inflation, rise in poverty or negative impacts on trade. Especially the higher debt levels in the aftermath of an external shock boost debt indicators and possibly lead to an unsustainable debt burden.

It is true that national authorities can take certain measures to soften the effect of external shocks, but only the international community can offer solutions to the problem. Similar to the last HIPC-initiative, the severe consequences of international price instabilities, exchange rates instabilities and natural disasters on the economy and the wealth of indebted low-income countries are identified: "Income losses from shocks tend to be higher in low-income countries than in other developing countries." (IMF/IDA, 2004, 42). The paper proposes a method which combines ex-ante and ex-post measures in the field of price and financial instabilities, but shows a very limited understanding of how to deal with external shocks ex ante. They are simply included in the operations based on the so-called "stress test" with a recommendation to solve the problem with "prudent lending and borrowing". The ex post approach is the set of actions taken after the shock has occurred.

Furthermore, the paper does not deal with the question how rich countries which either profit from the world trade or are responsible for instabilities on the financial markets could assist low income countries. Nothing is said about stabilizing measures or economic regulators that could be applied either to market products or to the exchange rates of the principal currencies, which are the factors that in the end affect these countries the most. Important negative influences such as natural disasters are ignored altogether.

Type of debt included

It has been claimed by various non governmental organizations that a serious debt sustainability analysis needs to include all debt of a country, i.e. both public and private debt and both external and internal debt. Although, in the normal statistics used by the World Bank, both the public and the private sectors' debts are included, it is a serious deficiency of the DSF that it only analyzes the public debt. From a macroeconomic perspective, it is important to include the whole of the sovereign debt in relation to the aforementioned indicators. This is even more so, when exports are seen as a key to measuring the degree of liquidity in the public sector. As mentioned above export earnings frequently are the private sector's income.

In the same way, internal public debt needs to be included in a debt sustainability analysis. Although external borrowing offers a wide range of advantages for developing countries (including lower interest rates, longer maturity and the supply of foreign exchange), domestic borrowing is increasingly becoming an option for many governments. There are a number of reasons that explain this development: First, foreign (concessional) financing may simply not be enough, making it necessary for governments to access additional means of funding. Second, international aid is very often linked to specific projects and programs and can therefore not be used by the government to cover budget deficits or capital projects not supported by donors. Third, there is a large set of monetary policy targets that lead to domestic borrowing. A large inflow of foreign exchange through grants and loans increases inflationary pressure. This pressure can be stemmed by selling government or central bank securities. Other monetary policy goals include the interest in developing a secondary market for government securities or maintaining financial stability. Finally, countries pursuing self-reliance strategies are likely to resort to domestic funding than seek for foreign funds.

In the three country cases, domestic debt has increased considerably since the beginning of the nineties and is a major concern especially with regard to the national budget. As interest rates are usually higher (especially in low income countries), annual interest payment consumes a relatively bigger part of budget than external debt service. In Kenya, where domestic debt accounts for about half of external debt, interest payment of domestic debt interest represents about 80% of total interest payment. In Ecuador, the level of external debt has been maintained fairly even in recent years; however, this was only possible through a dramatic increase of domestic debt. Thus, with a rising GDP (due to the high price of crude oil) Ecuador's foreign debt seems to have stabilized in recent years. It is only, when we include domestic and private debt into the debt analysis that the fragile situation becomes visible.

To its credit, the study recognizes the growing problem of the public sector's internal, domestic debt: "High domestic debt of the public sector, on the other hand, has become a serious issue in a number of low income countries and needs to be factored into the analysis." (IMF/IDA, 2004, 29). However, that is as far as it goes. When the time comes to make the sustainability indicators operational, a reduced sovereign debt is used, which excludes the private sector's debt and the public sector's domestic debt. That is why, from the very start, the statistical indicators soften the real dimensions of the debt burden.

Reviewing the DSF in light of the MDRI

On March 29th of this year the IDA Staff presented the first Review of the experiences with the joint IMF-World Bank DSF. According to the authors, "experience has so far been encouraging". This optimistic spirit concerning the monitoring of countries debt burden indicators results from 23 joint DSA presented by the BWI showing high risks of debt distress for countries with a low CPIA rating or for those that have not reached the HIPC Completion Point (IDA, 2006: 4). The review analyses furthermore the role played by the latest G8 debt relief initiative (Multilateral Debt Relief Initiative – MDRI) concluding that debt accumulation in MDRI recipients should be on terms and in volume that will avoid a return to debt distress. This fact leads to the conclusion that in spite of the controversy concerning the thresholds limits the authors recommend to the board to maintain the proposed thresholds. The Review brings therefore no improvement for the DSF.

With regard to domestic debt the Review again recognizes the necessity to include this type of debt, however, the furthest it goes is to propose a definition of guidelines. Rather, it should be recognized, that the dynamics of the increase of domestic debt lies in the persistence of current debt management and is associated with a disguised sustainability analysis from a unilateral perspective. Postponing the treatment of this problem contributes to exacerbating it.

The relation between public spending and growth is evident. However, there is also a relationship between the structure of the economy and the limits of public spending that derives from saving capacities of the economy, as well as the rate of return from investment. A Debt Sustainability Analysis must not leave aside that the majority of developing countries faces very low saving rates and that structural adjustments with its restrictive

policies and the retirement of the state in the 1990s could not stimulate investment. They rather lead to a reduction of public revenues.
Although the disregard of the importance of external shocks to debt distress is a sore point already in the DSF, the Review does not fill this gap with any new enlightenment. Given the fact that neither important determinants for debt crisis like external shocks, terms of trade, exchange rates instabilities, natural disasters, nor negative side effects of the same, such as domestic debt and the lack of resources to achieve the MDG are considered in the Review, debt sustainability in the DSF is reduced to the CPIA performance rating of the World Bank. This leads to a fairly one dimensioned definition of debt distress.

Alternate Definitions of Debt Sustainability

There are a number of alternate approaches to debt sustainability, that try to link debt sustainability analysis to human development. They usually focus on the social and development imperatives of a government's expenditure and its revenue-raising capacity, calculate the funds that should be made available for debt servicing, and compares them to actual obligations. The general thrust of such an approach was endorsed by the Member States of the United Nations in the Monterrey Consensus[3]. In a like spirit, the United States Government adopted legislation calling on the Bretton Woods Institutions to limit external debt servicing of HIPCs to 10% of revenues, except in the case of countries with public health crises, where the prescribed limit was set at 5% of revenues (Herman 2004: 20). Such an approach could be applied equally to monitoring debt levels for sustainability — to flag when difficulties appear on the horizon — as well as to calculating how much debt relief a crisis country needs.
Similarly, the UN institutions UNCTAD and UNDP found that debt is sustainable only if the debt service payment is not paid at the cost of taking resources from provision for basic social services like education and health. This position has been clearly stated in the international debate on the financing of MDGs (UN 2002: paragraph 49). According to UNCTAD there is a clear relationship between external debt and reaching the MDGs: "The important benchmark for calculating the appropriate size of debt relief to be offered to this group of countries should be the level of resources that these countries need, taking into account the level of ODA flows, to attain the MDGs, without compromising growth" (UNCTAD, 2005). In this sense, the Multilateral Debt Relief Initiative was a step in the right direction. Nevertheless, the MDRI is still an isolated political measure without any link to a systematic debt sustainability approach which could replace the actual liquidity oriented conceptual framework of the BWIs.
Many CSOs in both creditors´ and debtors´ countries also emphasize the importance to connect the debt sustainability analysis to the requirements of human development (see country cases in this report). This implies not only to consider the fiscal burden of debt but also the question of how to manage debt problems in the future. The Catholic Agency for Overseas Development (CAFOD) has been the first non governmental organization which tried to systematize an alternative approach to set up debt sustainability, parting from the needs for human development: "Similar to the fiscal criterion used within the HIPC Initiative, the human development approach is concerned with assessing the fiscally sustainable level of debt. However, rather than arbitrarily setting "sustainable" ratios of debt to revenue qualified by even more arbitrary sub-criteria, the human development approach takes as its starting point the amount of revenue which a government can realistically be expected to raise after deductions of necessary funds for basic human needs have been made" (CAFOD, 1998).

[3] "Future reviews of debt sustainability should also bear in mind the impact of debt relief on progress towards the achievement of the development goals contained in the Millennium Declaration…Continued efforts are needed to reduce the debt burden of heavily indebted poor countries to sustainable levels" (UN 2002, paragraph 49).

Similarly to CAFOD, the European Network on Debt and Development (EURODAD) developed the so called “bottom up approach” for debt sustainability, connecting debt relief to the achievement of MDGs: “A simple yet attractive way to take these elements into account in a ‘bottom-up’ approach to debt sustainability is to use the MDGs to define the essential items a government should prioritize in its budget. Firstly, because they include most of the factors that preclude countries from leaving a sustainable development paths and secondly, because their relevance as policy, as well as analytical tools, is now widely recognized among policy makers.” (EURODAD, 2002). In a three step methodology EURODAD shows how such an approach could be made operational:
Assessing the overall resources available to a government’s central budget.
Subtract the amount of resources that each country will need to spend to achieve the Millennium Development Goals
No more than a third of the remaining resources should be used to service foreign debt
Additionally, academia in Germany and the coalition erlassjahr.de formulated the so called Board on Trustees Approach (BOTOS), It links the issues of debt sustainability with the principles of International Debt Arbitration: “The proposed approach significantly modifies the mechanism recently published by the World Bank and the International Monetary Fund (IMF) by defining debt distress situations with the help of the MDGs. Additionally, a new process for accomplishing a sustainable debt level will be outlined. This includes setting up a Board of Trustees on Sustainability (BOTOS). The BOTOS will negotiate a Business Plan, which provides a framework for investments in growth and development by both creditor and debtor replacing one-sided development assistance.” (Bunte et.al., 2004). Last but no least, there are several contributions from civil society organizations in the debtor countries like AFRODAD in Africa (AFRODAD, 2005) and LATINDAD in Latin America which proposed in several papers a human development vision when it comes to tackle the problems of debt sustainability.
Although the BWI introduced the MDGs as objectives in the preamble of the DSF, their methodology does not operationalize a social approach to debt sustainability. Neither the discussions nor the latest review of the DSF take into account any of the proposals coming from civil society and UN Institutions on financing the MDGs.

Conclusions

The basic tenets used for the DSF by the BWI are not new. The parameters for debt relief in the HIPC initiative are based on the same type of sustainability criteria with the same degree of political influence. In the case of the HIPC initiative, the objective was to relieve a group of nations whose solvency did not satisfy the financial criteria set by the bilateral creditors. The DSF again does not focus on solving a structural problem. Moreover, it is oriented towards the future (forward looking) and instead of focusing on debt relief, it establishes a link between debt sustainability and future concessionary financing requirements.
In doing so, the DSF commits a critical “exclusion error”: It excludes a group of nations classified as “sustainable” and “strong” from access to grants. These countries, in fact, live a situation of “debt distress” and institutional weakness, such as, Uganda, Sri Lanka, Nicaragua, Honduras, Pakistan, Ghana, etc. Thus, of the 80 IDA countries, a small group of about 20 countries with weak institutions will be the “winners”. With the exception of Bhutan and Indonesia, none of the countries with so-called “strong” institutions will receive any grants. Countries classified as “medium performers” receive at least half of their aid in form of IDA grants. The excluded countries have enormous difficulties with their foreign debts, they have a high vulnerability to external shocks, they are highly dependent on concessionary financing and currently they are highly compromised with achieving the MDGs. Most of them have a structural problem of over-indebtedness.

This leads to suggest that the DSF is a complex mechanism to distribute scarce resources amongst an increasing number of needy countries, as the assurance of financing the MDGs appears to be still out of reach. A new policy was introduced in the new three-year round of IDA funds which runs from 2005 to 2008 (known as IDA14): While in the previous three-year period (IDA13) all countries were allotted equal treatment and they received up to 40% in grants independently of their ability to pay, IDA14 attempts to treat countries differently and, above all, to assure its own financing as a concessionary lender for low-income countries. It is evident that this method will create enormous problems of "moral hazard" and lack of motivation to improve institution effectiveness.

Both, the HIPC initiative and the latest G8 debt relief initiative MDRI, are mainly financed from IDA funds: What is originally granted in the form of debt relief to a particular country is in the course of time retrieved again through decreased IDA funds. The DSF seems to have the same logic with even more problematic implications: The countries with "strong" institutions must now contribute to financing the countries with poor institutions.

Despite having proposals for discussion, the relationship between the DSF and the HIPC Initiative remain somewhat fuzzy (IMF/IDA, 2005: 11). This is unfortunate because the DSF does not benefit from the virtues of the HIPC of giving debt relief and assuring creditor participation. Thus, with the new framework, some HIPC countries could find themselves worse off if due to the new categorization established with the help of the CPIA higher threshold limits will be applied to determine their debt sustainability.

If the international community wants to use the "forward-looking" DSF as a real useful instrument in order to reach the MDGs, then the present debts problem of low-income countries must be tackled first. This could be done by completely cancelling the public and publicly guaranteed bilateral and multilateral debts with a cut off date of 2004. This would be according to the proposals of Jeffrey Sachs who pledges for a broader engagement of rich countries in order to reach the MDGs.

The attempt to adapt aid and future financing to the specific characteristics of indebted countries surely is a positive notion in the DSF, as it is important to see the qualities of policies and institutions. However, this should be made more transparent and the use of the CPIA for this objective may not be the best way. Other institutions of the UN system such as UNDP, UNCTAD could be charged with that case. This could be done in a participatory approach, which can result in strengthening institutions in the partner countries. At this point it is important to separate macro economic and social indicators and create more transparency.

An analysis of the debt sustainability should not only deal with the Low Income Countries but also include the Middle Income Countries. Moreover, a thorough debt sustainability analysis must concern the entire sovereign debts and not only the external debts. This means that the internal public debts as well as the external debts of the private sector must be included in the analysis. Besides, indicators for the sustainability of the internal debts must be developed.

Last but not least, the DSF must work on a social definition for the Low Income Countries instead of only using the economical definition of debt sustainability. In other words, the focal point must be the gap between the existing and the necessary resources in order to reach the MDGs. As long as the debt service reduces necessary MDG resources, the external debts situation remains critical. The governments of indebted countries as well as international institutions are urged to find common solutions in order to avoid this situation. It has been shown in the various bottom up approaches (for example EURODAD, 2004; Bunte et. al., 2004) how this could be reached.

Country Reports

Tanzania

Tanzania is one of the very poor countries in the world. With a GDP per capita of about US$ 621 (purchasing power parity) and a Human Development Index of 0.418 it ranks 164th out of 177 countries (Human Development Report 2005: 222). The majority of Tanzania's population lives on agriculture which accounts for roughly 50% of its GDP, provides 85 percent of its exports, and employs 80 percent of the total work force. As such, Tanzania's economy is highly vulnerable to climatic conditions. Especially droughts and floods impose constant problems on the poverty stricken Tanzanians and the weak Tanzanian economy (AFRODAD 2005a: 4). The industrial sector which accounts for only 15% of GDP, mainly produces light consumer goods and processes agricultural products. In recent years growing tourism and a booming mining sector have been the main reasons for an overall real growth rate of about 5.4% between 2000 and 2004 (MoF 2000-2005). As in almost all developing countries employment in the informal sector plays a significant role in Tanzania. The latest data available originate from the year 1991 when already about 22% of total working force was engaged in this sector (MoLY 1991). As informal sector work increased strongly in recent years, it is apparent that this figure must be much higher nowadays.

Poverty remains widespread and persistent in Tanzania. Between 1990 and 2003 an average of 60% of the population lived on less than two dollars a day. 20% even lived in absolute poverty. The total number of people below the national basic needs poverty line increased from 9.5 million in 1991/92 to 11.4 million in 2001/02. In August 2000 the Government of Tanzania adopted as one of the first countries a national "Poverty Reduction Strategy Paper" which was endorsed by the Boards of the IDA and the IMF in November and December 2000, respectively. (UNDP 2005: 229 and AFRODAD 2005a: 4) In summer 2005, the PRSP was followed by the "National Strategy for Growth and Reduction of Poverty" (NSGRP), known in its Swahili acronym "MKUKUTA". It provides a national framework to implement poverty measures in Tanzania.

Tanzania's Debt Situation

In the framework of the HIPC-Initiative and through the elaboration of various PRS-Documents, Tanzania gained significant debt relief after reaching Completion Point in 2001. Total external debt stock comprised, as at the end of March 2005, US$ 7.800 million, registering a slight decline of 1.5% compared to the previous year (MoF 2000-2005). However, debt service payments in 2004 amounted US$ 250 million increasing sharply from US$ 92 million in 2003 (World Bank 2005).

<u>Present Value Debt to export ratio:</u> Under the HIPC-Initiative a country is considered to have a sustainable level of debt to exports when the ratio reaches a present value of 150% of exports. Under this assumption, debt relief was granted in 2001. Initial projections predicted the ratio to remain well below this 150% limit and to stay there for the following 20 years. However, this projection arose from overoptimistic assumptions on Tanzania's economic growth rates that did not realise. In March 2005, the debt to export ratio was 249% – well above the predicted 137.1% (MoF 2005). Thus, the enhanced HIPC Initiative has not sufficiently helped Tanzania out of an unsustainable debt situation (World Bank 2005 and AFRODAD 2005a: 10f).

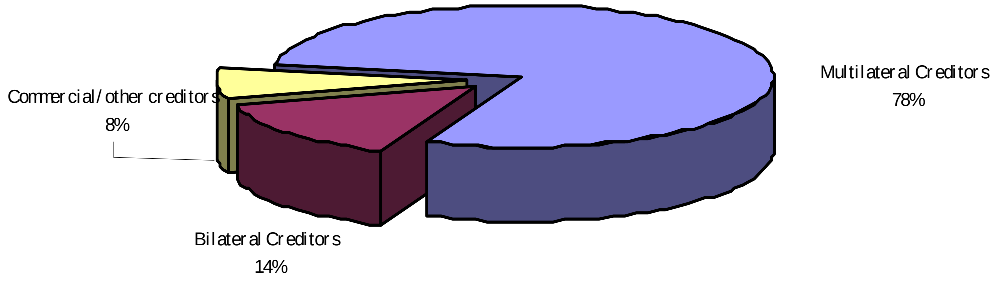
The logical consequence would have been to grant a further debt relief as a topping up or to admit the failure in projecting the future. However, with the introduction of the DSF the answer of the BWI is different. Tanzania is one of the countries that is actually worse off: a "good performer" the county is not rewarded, as the benchmark for this debt to exports ratio is now set at 200%. Thus, all of a sudden, all projection errors by the BWI become almost

irrelevant, as Tanzania's debt though not being sustainable will probably not be subject to further debt relief.
Debt servicing to export ratio: The official benchmark to reach a sustainable debt level under the HIPC-initiative is a debt servicing to export ratio of less than 15%. As already mentioned, debt servicing increased drastically in recent years, rising from 5.2% of exports in 2003 to 12.2 per cent in 2004 (World Bank 2005). Reasons for that can be found in an increased domestic borrowing of the public sector as well as in a new international loan program. (Shortly after the HIPC relief in 2001, Word Bank and IMF announced a new loan program that disbursed almost US$ 1 billion from 2000 to 2003.) Although, even now Tanzania's debt service is a heavy burden to the country's economy, under the new DSF framework the debt service could reach up to 35% of exports without being considered unsustainable.
Ratios of public debt to domestic revenue and to GDP: Under the HIPC-initiative debt sustainability limits are set at 250% of public debt to domestic revenue and 80% of debt to GDP. In the fiscal year 2003/2004 public debt to revenue added up to 408% while the debt to GDP ratio was 40% (AFRODAD 2005a:11). The debt to revenue figure shows that the Tanzanian government is much above the sustainable level and far away from raising enough revenue to fulfill its commitments with its international and national creditors. As the ratio of debt to revenue has been on the increase in recent years, there is no sign that Tanzania moves towards sustainability.
The fact that the debt to GDP ratio is satisfactory has to be considered with caution. The reason for introducing this ratio is the assumption that a higher GDP stands for higher domestic revenues and probably exports, thus increasing a country's revenue to service its debt. However, due to the existence of a substantial informal and non-monetary sector, tax revenues are much smaller than the current GDP level suggests. Additionally, exports account for only a small portion of Tanzania's GDP. (AFRODAD 2005a: 11)
Debt service to revenue ratio: Finally, the debt service to revenue ratio reveals a country's debt burden clearly in terms of the portion of its domestic revenue that it has to spend to service public debt. The figure for Tanzania was 36.5% in 2003/04, showing clearly that debt is unsustainable as debt service takes up more than a third of domestic revenues.
Concerning these indicators it is save to say that Tanzania's debt is unsustainable. With the exception of the ratios of debt to GDP and debt service to export, all indicators are above the sustainable level. The ones that are below have to be treated with caution: informal economy activities tamper the debt to GDP ratio and as debt service has strongly increased after 2003, the debt service to export ratio is rapidly heading towards an unsustainable level.

Creditor structure

The most recent data available are published in the Tanzanian Ministry of Finance's Quarterly Debt Report of March 2005. Total public external debt amounted to US$ 7.1 billion. This amount was shared between multilateral creditors (US$ 5.6 billion), bilateral creditors (US$ 1 billion) and private creditors (only about US$ 530 million). Creditor structure has changed heavily in recent years. In 2001, multilateral and bilateral creditors each accounted for roughly half of Tanzania's debt burden. The dominant role that multilateral debts gained in the last years arises from the strong bilateral debt relief during the HIPC-Initiative as well as from the new government policy of borrowing loans on concessional terms. These loans are mainly offered by multilateral creditors.

Figure 8: Tanzania: Creditor structure 2005



In the group of multilateral creditors, the Word Bank is by far the strongest creditor of Tanzania (US$ 4 billion in 2004) followed by the IMF with US$ 423 million of outstanding credits. Bilateral creditors of Tanzania are the 13 members of the Paris Club and 18 non Paris Club countries. The top five bilateral creditors are Japan, the United Kingdom, Italy, Belgium and France.

Country experience with debt rescheduling and debt relief

Tanzania had numerous agreements on debt rescheduling with the Paris Club:

Table 5: Paris Club rescheduling with Tanzania

Date of rescheduling treatment	Amount	Type of treatment
September 18th, 1986	US$ 800 million	Classic
December 13th, 1988	US$ 341 million	Toronto terms
March 16th, 1990	US$ 200 million	Toronto terms
January 21st, 1992	US$ 691 million	London terms
January 21st, 1997	US$1608 million	Naples terms
April 14th, 2000	US$ 711 million	Cologne terms (HIPC Decision Point)
January 17th, 2002	US$ 1245 million, of which US$ 973 are cancelled	Cologne terms (HIPC Completion Point)

Source: Paris Club Homepage (http://www.clubdeparis.org)

Tanzania was one of the first countries to qualify for HIPC debt relief in 1996. In November 2001 it already reached completion point, qualifying for a debt relief of about US$ 3 billion (NPV) over a 20 years period. It was agreed that multilateral and bilateral creditors each would bear 50% of total debt relief. Some of the bilateral creditors like Japan and Brazil have not lived up to their promise yet. In 2003 about US$ 800 million were owed to Non-Paris Club Members that are not part of the HIPC-Initiative, therefore limiting the effect of debt relief through HIPC.

The problem of domestic debt

While Tanzania's growing external debt has been recognized as a problem in recent years, few attention has been drawn to another important issue: the problem of internal or domestic debt. Domestic debt in Tanzania takes the form of securitized liabilities such as treasury bills, treasury bonds and loan stocks (which account for the largest share in public domestic debt) or non-securitized liabilities. Statistics and reports indicate that the public domestic debt position in Tanzania is modest. Although the total stock of public domestic debt has been increasing, the proportion of domestic debt as percentage of GDP has been declining from more than 30% in the early nineties to about 19.7% in 2003. Nevertheless, the ratio which remained at around 15% from 1998/99 until 2003/04 sharply increased from 2003/04 to 2004/05.

Figure 9:

Tanzania: Public Domestic Debt, 1993/94-20004/05

Source: MOF 2005

On the other hand, domestic debt's component of total debt has remained almost constant in the last 10 years at slightly below 20%. Compilation by Christensen (Christensen 2004) from economies in Sub-Saharan Africa also puts Tanzania in a better position relative to other economies in the region, especially in recent years.

Nevertheless, it is difficult to answer the question whether Tanzania's domestic debt is sustainable or not. While there are numerous indicators to measure external debt sustainability there is no consensus of how to measure a sustainable domestic debt level. A recent study by the IMF (IMF 2004) on the one hand introduces the public domestic stock in percentage of GDP as a sustainability indicator but on the other hand fails to indicate a specific level of sustainability.

But without doubt, public domestic borrowing bears high risks. First of all, in medium-terms it imposes a financial burden on the budget, tying resources to domestic debt servicing that otherwise could be used for poverty reduction and other priority areas. Secondly, domestic interest rates are much higher than foreign rates. Thus, domestic debt service can consume a significant part of government revenues. In Tanzania, slightly more than 10% of total revenues (excluding grants) are used to service interest on domestic debt. This is by no means a small figure in absolute terms as it means about US$70 million of annual interest payment – without considering any repayment aimed at reducing the stock of debt.

Moreover, the maturity risk of domestic loans is much higher, as maturity rates normally are very short-sighted. An IMF survey found out that the average maturity of domestic debt instruments for HIPC countries is about six months (177 days) while that for a selected group of developed and emerging markets was about five years (1.945 days) (IMF 1999). This increases rollover and market risks, especially in countries with large outstanding domestic debt stocks. Finally, high public domestic borrowing increases interest rates and can crowd out private investors as the government taps from private savings that would otherwise have been available to the private sector and as interest rates on the national market rise (Christensen 2004).

Tanzania tries to tackle these risks through its National Debt Strategy (NDS) and the National Debt Management Committee (NDMC). The latter acts as a watchdog for all borrowing and guarantee granting issues. In recent years the Tanzanian Government has successfully launched longer-maturity instruments tackling the problem of short-term maturity of domestic loans. For the first time authorities have the option to choose from a menu of long-term instruments. There is also a strong emphasis on secondary market development and a will to broaden the investor base, promoting investment by retail investors and reforming pension and retirement funds to encourage their investment in government bonds.

For the future all signs are pointing out that domestic debt will play an increasing role. In its "Vision 2025" the Tanzanian Government calls for replacing foreign financing of budget deficit by domestic financing over the medium to long-run in line with the self-reliance targets. Although domestic debt does not seem to be an immediate problem nowadays, it easily could be in the future. Tanzania's domestic debt service burden is already high and with an imprudent debt management things could head in the wrong direction. To address the issue of Tanzania's debt (un)sustainability, both components of public debt, external and internal, have to be treated together and can not be viewed in isolation.

Debt sustainability and external shocks

The Tanzanian economy heavily depends on agriculture and few exportable goods. As already mentioned the majority of Tanzanians works in the agricultural sector. Main export goods are coffee, cotton, tea, tobacco, sisal, cloves and cashew nuts. The industrial sector is weak and traditionally features the processing of agricultural products and light consumer goods. Industrial output accounts for only 8.1% of GDP. The fastest-growing sectors are mining and tourism.

The heavy dependency on few, mostly agricultural export products is one reason for Tanzania's sensitivity to external shocks. These shocks manifest in the deterioration of terms of trade due to a fall of world market prices for agricultural products, a sharp rise of oil prices, droughts and other natural disasters or in high currency fluctuations on international capital markets (AFRODAD 2005a: 8). Impacts of these shocks on a national level range from lower economic growth, leading to lower fiscal revenues and higher borrowing to a galloping inflation of the national currency that inter alia increases the government's debt burden (as it mainly consists of loans in foreign currency) and lowers people's purchasing power, harming especially the poor.

In recent years Tanzania faced numerous external shocks. A rise of oil prices along with a food shortage in 2003/04 and a rapid depreciation of the Tanzanian Shilling forced the government to drastically increase its borrowing. The higher oil prices also had a direct impact on households. More money had to be spent on fuel, leaving less for basic needs and thus increasing poverty.

Another example are the strong fluctuations of prices for cashew nuts. The cashew nut market is highly concentrated and characterized by unexpected sharp highs and lows of the global production. Some year, production may suddenly decline to halving past year's production level thus leading to a dramatic fall in prices. Tanzania is one of the largest producers of raw cashew nuts worldwide. The sector employs 280,000 smallholder farmers and generates 5% of the country's export earnings - approximately US$ 70 million annually. External shocks are a main reason for the sharp decline in cashew nut production in recent years. Raw cashew nut production has fallen from 128.000 tonnes in 2001 to 84.000 tonnes at the end of 2004[4].

External shocks must be taken into consideration when talking about debt sustainability and assessing the medium and long-term development of a country's debt burden. Especially in low income countries, external shocks are an inherent part of the economic cycle. Due to a weak economic basis, governments of developing countries generally have very restricted possibilities to face external shocks through fiscal and monetary policies. Consequently, external shocks reduce the benefits of HIPC debt relief. According to experts from AFRODAD, 66 percent of HIPC benefits have been lost due to external shocks.

Debt Sustainability and the MDGs

Poverty reduction and the aim of sustainable social development has been an issue in Tanzania long before the "Millennium Summit" of 2000 adopted the MDGs. Already in 1967, Nyerere announced in the "Arusha Declaration" the strategy of "self-reliance" to promote development for the country. Since then, Tanzania elaborated various national policy documents for poverty reduction and the promotion of growth. The most important and current strategies are "Vision 2025" of 1999 and the new poverty reduction document "National Strategy on Growth and the Reduction of Poverty" (NSGRP) of August 2005.

[4] See Business Africa (http://businessafrica.net/africabiz/cashew.php) and Mbendi Information for Africa (http://www.mbendi.co.za/indy/agff/frut/af /p0005.htm).

Additionally, in 2000/01 a “Poverty Reduction Strategy Paper” (PRSP) was elaborated by the government to meet demands of the international community and qualify for debt relief under the HIPC-Initiative. The PRSP finally merged into the NSGRP (“Mkukuta” or PRSPII) and is together with Vision 2025 the leading development strategy of Tanzania nowadays. Both strategies include the eight MDGs and its 18 targets and broaden them by addressing further issues such as infrastructure or the reform of the judiciary system. (AFRODAD 2005b:10f) The PRSP I and II focus on seven priority areas such as primary education, basic health care, water and sanitation and the promotion of agriculture among others. In contrast, “Vision 2025” is a more long-term development agenda setting ambitious goals to reach until 2025 such as reducing poverty by half by 2010 and eliminating absolute poverty by 2025 (http://www.tanzania.go.tz/vision.htm).

Five years after the Millennium Summit, reaching the MDGs in Tanzania by 2015 is put into question. On the one hand, shares of government funds allocated to priority sectors increased after HIPC debt relief of 2001 from 4 to 11% of total public expenditure. Especially in the area of primary education and health care, achievements can be observed (TCDD 2005). The abolition of Universal Primary Enrolment (UPE) levy and other mandatory contributions, the increased budgetary allocations to implement the Education Sector Development Programme (ESDP) as well as the introduction of a capitation grant of US$ 10 equivalent per pupil, which started in 2002, to cover expenditures on textbooks, school operation and administration among others have had very positive impacts on primary education. Enrolment grew by 50% from 4.4 million in 2000 to 6.6 million in 2003 and the drop out rate in primary schools declined from 6.6% in 2000 to 4.7% in 2003. The health sector experienced an increase in the number of health facilities, health education and Anti-HIV campaigns, vaccinated children under the age of 2 years and as a consequence a declining number of mother and child mortalities.

Nonetheless, Tanzania still faces enormous problems in reaching the MDGs: 48% of the people live below the basic poverty line and income poverty is severe and has risen in absolute terms from 9.5 million in 1991/92 to 11.5 million in 2001/02 (AFRODAD 2005b:6). The number of moderately to severely stunted children currently is 44% and according to recent national estimations 20% of Tanzanians are HIV-positive.

But how much financial resources are needed to finance the implementation of the MDGs in Tanzania? This “MDG costing” has already be done for six countries on behalf of UNDP and World Bank, among them Tanzania (MBELLE 2003). It is extremely difficult to come forward with an exact number of how much resources are needed to achieve the MDGs in a country. Reasons for this lie in the choice of indicators and variables used for costing, in the correlation and interconnection of the goals, in the influence of external factors such as external shocks or the existence of inequities. Furthermore the lack of exact data, especially for future projections present a challenge.

The UNDP study shows that for countries, that have undertaken MDG costing, resource gaps range from 2.8% of GDP to 12.7% per annum while the required rate of annual GDP growth to reach the MDGs by 2015 would be between 4% and 9%. Especially the required GDP growth is very sensitive to social inequalities. The higher inequalities are, the more annual growth is needed. For Tanzania the resource gap in 2002 to progress in terms of MDGs is calculated with about US$ 550 million. Considering debt service payments for the same year amounting to US$ 110 million, even a full and comprehensive debt relief would not be sufficient to finance the achievement of the MDGs in Tanzania.

In the light of these findings, debt sustainability analysis cannot avoid dealing with (the lack of) resources for MDG financing. The goals have been endorsed by nearly all countries in 2000. Concerning financial resources it is apparent that most developing countries are not (yet) able to raise sufficient domestic revenue to reach the MDGs. Therefore, developed countries have a particular responsibility to solve these financial bottlenecks if they are truly committed to the goals. Is it not a paradox that on the one hand Tanzania in 2002 payed 110 millions of US-Dollars to developed countries to service its debts while on the other hand these countries lobby for the MDGs, knowing that Tanzania faces a financial gap of US$ 440 millions only in 2002?

Proposals from Civil Society

In the recent past the Tanzanian civil society organizations (CSOs) have worked intensively on issues such as poverty reduction, MDGs and debt relief. Additionally, the Zimbabwe based organization AFRODAD provides further research studies for many African countries on debt issues. In a recent study the new Country Policy and Institutional Assessment (CPIA) was critically reviewed for the case of Tanzania (AFRODAD 2005a:14f and http://www.g24.org/ kapp0904.pdf). Tanzania has ranked high, achieving an overall rank in the first quintile (A). For the years 2002 and 2003 it ranked in the first quintile in Economic Management, Policies for Social Inclusion/Equity and Public Sector Management and Institutions. With respect to Structural Policies it ranked in the second quintile. Portfolio Performance is ranked in the third quintile. The criticisms towards CPIA are well known and have been discussed previously. In the case of Tanzania it is once again apparent that the BWI are infected with a “systematic over-optimism”, thus trying to downplay the critical debt and development situation Tanzania is still facing.
In November 2005, representatives of mayor Tanzanian CSOs such as the Tanzania Coalition on Debt and Development (TCDD), the Tanzanian Social and Economic Trust (TASOET) and Caritas Tanzania gathered with representatives of the government and international CSOs in Dar-es-Salaam to discuss alternative ways to address the debt crisis and to find an answer to the question of Tanzania’s debt sustainability. Generally criticism was drawn to the role of the World Bank and the International Monetary Fund, both playing a double role of being creditors and policy makers at the same time, thus endangering the very sovereignty of debtor countries. There was also a general agreement that countries are more indebted now than before, and that the mainstreaming of MDGs in the poverty reduction processes might somehow help to redress the situation. The following recommendations have been elaborated:
International commission: Creation of an international arbitration commission on debt.
Debt Sustainability Analysis (DSA): It was strongly criticized that DSA is not calculated based on a country’s needs for sustainable development (i.e. the correlation between debt relief and poverty has been ignored in DSA). Fear was raised on the fact that the World Bank and IMF frameworks are unlikely to solve the problem of Debt Sustainability since they lack the link between debt sustainability and human development. It is mostly linked to economic indicators.
Therefore, as a minimum requirement, costing of MDGs and the issue of domestic debts have to be included in the DSA.
Lobbying and advocacy: CSOs should proactively engage with government programs and policies and place an emphasis on capacity building. CSOs have an important role in monitoring the government’s progresses on Monterrey and MDG goals.
Natural resources extraction: Furthermore, the government should be urged to renegotiate the utilization of natural resource such as gold, as most of the proceeds i.e. in the mining sector leave the country. CSOs should be included in the National Debt Management Committee
Pro-Poor-Growth: “Mkukuta” (NSGRP) has to focus on Pro-Poor-Growth strategies that proportionally benefit the poor more than the rich. Pro-Poor-Growth within the ‘MKUKUTA’ framework has to be monitored by CSOs.
External shocks: Northern CSOs have to revitalize and strengthen their lobbying for considering the impacts of external shocks on developing countries. Southern CSOs have to lobby for diversification of the export sector to raise preparedness to mitigate external shocks.
Good Governance: Issues of good governance such as corruption and the weakness of the judiciary system have to be addressed in the path of reaching a sustainable debt situation.

Donor dependency is regarded as a problem.

Following the recommendations already highlighted above, the workshop agreed on two critical issues to be pursued as a way forward. These are :

There was an urgent need to repackage the information available so that it is well understood by all stakeholders. That TCDD and other Civil Society Organizations must engage in civic education to enlighten the general public on the impact of debt and MDGs on the poverty reduction processes. Especially people on the grassroots are not informed about the impact of foreign debt, MDGs or Mkukuta that nevertheless influences their daily lives.

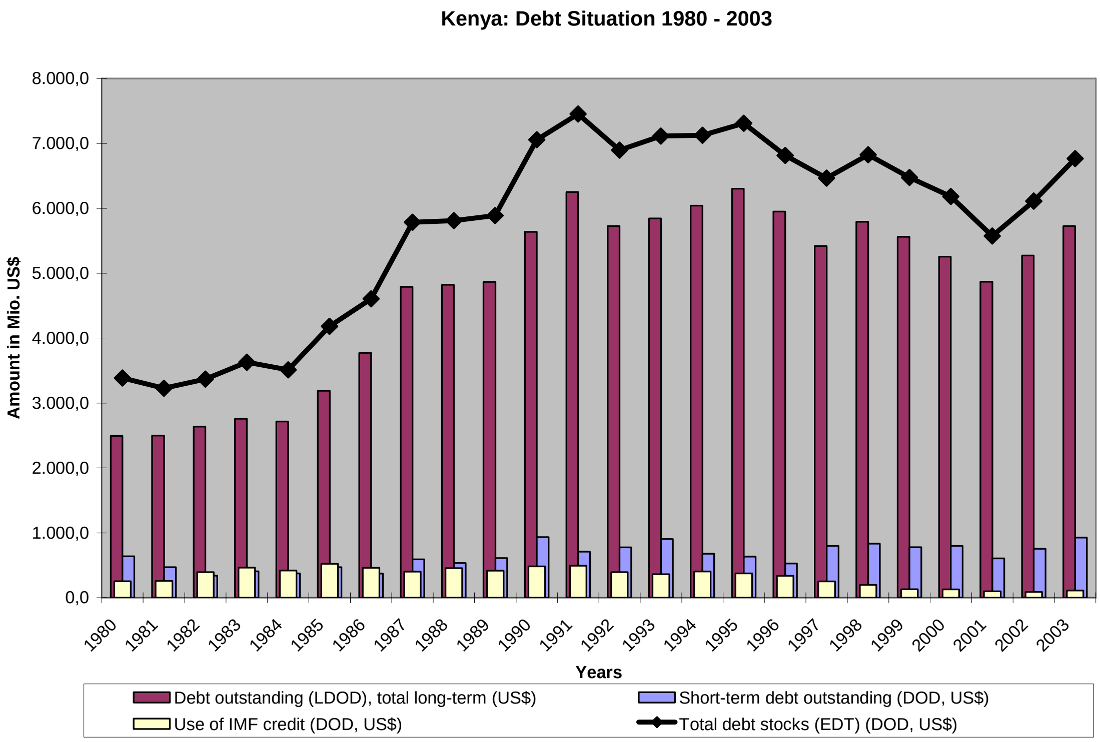
The current criteria used for calculating DSA are exclusive since it does not consider the problem of domestic debt. Hence the projected DSA is unrealistic. Debt Sustainability Analysis has to be compatible with the actual situation on the ground rather than basing on World Bank and IMF formula. TCDD must furthermore struggle to ensure that it is included in the team that formulates the DSA.

Kenya

Kenya's Debt Situation

Kenya is classified by the World Bank as a Moderately Indebted Low Income Country (MILIC). According to the World Bank Kenya's debt increased from US$ 3.5 billion in 1980 to a peak of US$ 7.5 billion 1991 (World Bank, 2005). The figures of the government of Kenya show a decline to US$ 5.8 billion in 2005 (Karu, 2005). While Kenya's external debt appears to be low by international standards and sustainable according to the criteria of the HIPC initiative, the stock of external debt and its servicing nevertheless poses a mayor problem to the country (Mwega, 2005).

Figure 10:



Source: World Bank (GDF,2005).
Kenya's external debt grew specifically due to:
The need to supplement domestic resources to finance public investment to achieve higher economic growth and better standards of living.

- Borrowing to mitigate external shocks

Sharp oil rise in 1973-74 and 1979-80 that led to a deterioration in the balance of payments
Depressed primary commodity prices in the 1980's.
According to the thresholds used by the BWI in the HIPC Initiative, Kenya's external debt appear to be sustainable.

Table 6: Debt Burden Indicators and HIPC Thresholds

Debt Burden indicators	2004	2005	HIPC Threshold
PV of debt/Exports (%)	109	105	150
PV of debt/revenue (%)	129	130	250

In % of GDP (%)	27	27	30

Source: Kairu, Ch. (2005), Ministry of Finance, Kenya

The stock of external debt and its servicing nevertheless poses a major problem in the country if considering its vulnerability to exogenous shocks and the lack of resources needed to achieve the MDGs. The country reportedly spends about 40 percent of its annual budget to pay interest on its debt. According to the Central Bank of Kenya, by April this year, Kenya's stock of external debt stood at a staggering Ksh. 411 billion (5.5 billion US$), which is slightly above the national budget and almost double the total annual revenue of only Ksh. 230 billion (3.1 billion US$) (AFRODAD, 2004, 7).

Table 7: Debt Burden Indicators and DSF Thresholds

Debt Burden indicators (%)	1980	1990	2005	DSF indicators (medium)
External Debt/GDP	19	52	36	45
External Debt Service/XGS	18	32	5	25
Public Debt Service/Fiscal Revenue	21	50	14	30

Source: Ministry of Finance, 2005

Creditor structure

In terms of Kenya's current debt composition, multilateral creditors account for 59%, while bilateral creditors account for 30%. Multilateral support has increased significantly from Ksh. 24 billion (US$ 320 million) in 2003 to Ksh. 33 billion (US$ 440 million) in 2004, while bilateral support has increased only marginally from Ksh. 11 billion in 2003 (US$ 147 million)/ to Ksh. 13 billion (US$ 173 million) in 2004/05. The World Bank is the leading multilateral external financier accounting for nearly 60% of total multilateral support. The Federal Republic of Germany is Kenya's leading bilateral financier accounting for nearly 35% of total bilateral support resources. Roughly 95% of debt owed to official creditors is concessional.

Table 8: Structure of Kenya's external Debt 2005

CREDITOR TYPE	Amount Million Ksh.	Amount Million US$	In %
Multilateral	255,235	3,403	59
Bilateral	130,740	1,743	30
Commercial	21,001	280	5
Guaranteed	27,477	366	6
Total	434,453	5,793	100

Source: Ministry of Finance, 2005

Country experience with debt rescheduling

As Kenya's debt is classified as sustainable, the country does not qualify for HIPC relief. Rescheduling is therefore the option to close the financing gap. Kenya has had three Paris Club rescheduling. In 1994 (US$ 500 millions) and 2000 (US$ 298 millions) the country

received ad-hoc-treatments without any element of concessionality in it. In January 2004, the Paris Club conceded Kenya a "Houston Term" rescheduling on US$ 350 million falling due between January 1st 2004 and December 31st 2006. In doing so, it ignored the recommendations of the IMF's Debt Sustainability Analysis, though the Club claimed to have based its decision on it[5]. As a result, Kenya's debt service ratio is expected to fall by one percentage point as compared to a non-rescheduling scenario.
In 1998, Kenya rescheduled US$ 70 million of Commercial debt arrears with its private creditors is the London Club. However, Kenya has obtained unilateral debt cancellation from: Germany (€ 300 million), Netherlands (US$20 million) and China (US$ 13 million).

The problem of domestic Debt

As many other severely indebted countries, Kenya has a serious problem of domestic debt, which accounts for 58% of external debt. As the majority of sub-Saharan countries, Kenya strongly depends on official aid flows given as concessional credits. Since the public sector completely depends on external assistance to finance its own activities, the government is forced to get internally indebted when external assistance is cut. Moreover, the Kenyan government guarantees most of the private sector debts. A big part of the negative net transfers resulting from these debts, are financed by increased public domestic debts by the central government.
Due to its market conditions, the internal debt carries a substantial destabilisation potential for the public budget (UNCTAD, 2004: 46). It has risen from 19.4% of GDP to 23% between 2001 and end 2002 (MoP, 2006). Domestic interest represents nearly 80% of total interest payments. This means that interest payments on domestic debt in the government budget have become increasingly more important than those on external debt.

Table 9: Size of Kenya's Total Public Debt

Debt Categories	1970	1980	1990	1995	2000	2005
External (Ksh. million)	2,040	10,008	103,154	268,314	395,694	434,453
Domestic (Ksh. million)	1,162	7,144	45,537	111,310	163,405	251,269
Total (Ksh. million)	3,202	17,152	148,691	379,624	559,099	685,722

Source: Ministry of Finance, 2005
Public domestic debt has been purchased by local banking system, pension funds and individuals. The main reason for domestic borrowing in Kenya is large budget deficits, especially due to a decline (cut off) in the supply of foreign aid (Mwega, 2005, 11). The rise in domestic debt must be associated with the lack of external financing availability during the 1990s. It has increased at alarming levels from 1990 onwards due to:
Suspension of donor aid in 1990-91,
Unpredictable donor flows due to lack of commitment to economic and structural reforms,
High domestic interest rates in the 1990's led to a vicious circle in the growth of debt.
The IMF's debt sustainability assessment of Kenya envisages that this trend should be reversed and debt sustainability explicitly should be achieved by the partial substitution of internal debt by external debt, as well as Paris and London Club rescheduling.
Kenya's Domestic Debt can be categorized into two types:
Treasury Bills –short term instrument where the two main types are the 91 and 182- days bills.
Treasury Bonds- long term instrument where currently terms ranges from 1 to 10 years (average 4 years).

[5] Paris: Club: The Paris Club agrees to a 350m debt rescheduling for Kenya; Paris, Jan. 15th 2004 (www.clubdeparis.org)

Treasury bills account for 25% and Treasury bonds for 75% of total domestic debt. Domestic debt can also be looked at in terms of holders. Banks hold 54% of domestic debt, Non-Banks 44% and Non-residents 2% of total Kenyan domestic debt.

Debt sustainability and external shocks

Kenya has a high vulnerability to external shocks. In the course of history, the country has been confronted with exogenous shocks like natural disasters such as droughts, increase of the oil prices, the embargo of international aid (1991/92) and last but not least the changes in international interest rates. These exogenous shocks were accompanied by an increase in the budget deficit and money supply with the rate of inflation rising rapidly alongside large exchange rate depreciations, as the foreign exchange market was liberalized in the context of large macroeconomic imbalances in the run-up to the 1992 elections. Kenya's susceptibility to external shocks has important implications for disruptions in its repayment capacity.

The stress tests on Kenya's external debt revealed that Kenya's economy remains vulnerable to a wide range of exogenous shocks. These, among others, include lower export growth, heralding lower foreign exchange earnings and therefore smaller official transfers in respect to overall central government debt. The tests show further that the economy is particularly vulnerable to real devaluation, including a weaker primary balance and inevitably a dramatic increase in debt-creating flows. (IMF, 2003: 3).

On November 17th 2003 the IWF concluded its latest debt sustainability analysis for Kenya. The document compares four scenarios:

a non-rescheduling ("baseline") scenario

a three year flow rescheduling on non-concessional terms,

a three year flow rescheduling under Houston Terms,

a three year flow rescheduling under Naples Terms, followed by a Naples Terms' stock-of-debt operation.

In all these scenarios the debt's Present Value to export ratio falls from 122% to 105-110% in 2004. This reduction is mainly due to the lack of access to new loans during the last years of the Arap Moi administration. From 2005 onward massive new borrowing will lead to a substantial increase of this indicator, which exceeds 120% in the rescheduling scenarios (2) and (3) and exceeds 130% in the non-rescheduling scenario. Only under the Naples Terms scenario the ratio will stabilize between 110 and 115% until 2015.

The IMF quite openly recommended a treatment under Naples Terms, in fact it even expected it: "The DSA also shows that debt sustainability would improve significantly with a concessional rescheduling, particularly under Naples Terms (which would also free up sizable resources for spending on priority-poverty reducing programs)" (IMF, 2003, 1). But although only Houston Terms were conceded, for the BWI Kenya's debt appears to be sustainable under the current scenario and therefore Kenya does not qualify for debt relief under the HIPC Initiative.

However, Kenya's debt situation could be vulnerable under various shocks. Most serious stress would come from a sharp real depreciation (one-time 30% nominal depreciation), which would push the present value to GDP to 71% during the program period. Other potential shocks include a combined fall in export value growth, GDP growth and a rise in debt-creating flows.

Illegitimate Debt

According to the Justice and Peace Commission in Kenya, a big amount of Kenya's debt could be illegitimate. A lot of it was put into projects that internationally failed at infancy and were corruptly managed and the money went back to where it came from either by corrupt Kenyan officials siphoning the money out of the country or by expensive but unqualified expatriates employed to manage the projects, resulting in the projects not achieving their intended purposes. "The failed projects are strewn around the country. The major ones include, the Turkwell Gorge Hydro-electric Plant in Turkana, North West Kenya, the Molasses Plant in Kisumu, Nyanza Province, the Ken Ren Fertilizer Project in Mombasa, Coast province, and the expansion of Nzoia Sugar Company in Western Kenya. Over US$ 300 million was sunk into these projects but nothing substantial came out of them. They are symbols of mega corruption involving borrowed funds of the Moi era" (Gekonge/Mwangi, 2005, 1).

Debt Sustainability and the MDGs

The Needs Assessment and Costing Report on MDGs in Kenya has now been finalized. The report shows that the country requires about US$ 61 billion between 2005 and 2015 to achieve the MDGs (Government of Kenya, 2005: 10). This amount of resources cannot be financed through public resources alone but will require support from development partners.

Table 10: Costs for meeting the MDG

Goal	Approx. Annual Costs (US$ million)	Approx. Total Costs (2005 – 2015)
Goal 1	854	5,825
Goal 2	360	3,969
Goal 3	183.3	2,017
Goal 4&5	30.9	339.9
Goal 6	754.4	8,298
Goal 7: Environmental Sustainability	85.7	943
Goal 7 Water and Sanitation	74.2	8,016.6
Goal 7 Slums Improvement	907.2	9,980
Goal 8	International Community to honour the Resolutions of the Millennium Declaration. This MDG is the poorly performing worldwide.	
MDG Enablers - Energy	876.8	9,644.8
Other enablers –Infrastructure and others		1,168.8

Source: Anyango, G. (2005).

The next step is to develop the MDG-based long term and medium term plan, embark on national wide MDG campaign to marshal support for this process. Implementation of MDGs is a mammoth task. A number of challenges (resources-based, institutional-based and policy-based) will need to be overcome to meet the goals. These challenges vary from goal to goal. Nevertheless progress is being made towards meeting the goals as demonstrated below.

MDGs vs. Government expenditure

Government expenditures have to be focused on achieving the MDGs, but government expenditure is so watertight that it leaves no room at all for manoeuvre to address the MDGs. MDG have to be achieved by shifting more resources to the social and economic sectors gradually from about 56% in Fiscal Year 2004 to 64% in Fiscal Year 2007.

For the first time in Kenya's history the budget proposals were made without factoring-in budgetary support by bilateral development partners. Given the limited public resources available and the still too unpredictable flow of external resources, the challenges to be overcome to achieve the MDGs are still enormous. The needs assessment and costing study undertaken in 2004 and 2005 clearly underscores the need for increased flow of external assistance.

MDGs vs Debts

As described above Kenya's public external debt stock amounted to an equivalent of US$ 5.8 billion. Servicing of this debt means committing a huge chunk of resources from national resources leaving inadequate funds to implement the MDGs. Between 2004 and 2005, Kenya has been committing US$ 680 million as external debt service charges. This has had continuously adverse effects on the growth of the country. Thus the argument that Kenya's external debt is sustainable, when considered within the context of the other development challenges facing the country, does not hold.
As the UNDP states, "[t]he experience in Kenya is that the debt does not leave sufficient resources to implement the MDGs" (UNDP, 2005). Consequently, it is impossible to achieve the MDGs, without addressing the debt burden and the unfair trade practices. Without debt cancellation the government will continue channelling resources towards servicing the previous debt. "Therefore, with the international community's call to achieve the MDGs by 2015, debt sustainability criteria need to be redefined to focus on the MDGs and not merely on exports, as is the case in the HIPC. In this regard, debt should be said sustainable if it leaves enough resources to meet the MDGs" (Government of Kenya, 2005, 30).
The revenue base which is complicated by Kenya's total public debt stock makes it impossible to meet the MDG financing gap that government is facing. With a watertight budget that the government operates, other sources of funds must be found to address the MDGs.

Table 11: Kenya's Revenue compared to MDGs resources requirements.

Year	Fiscal Revenue (US$ billion)	MDG Annual Budget Requirement (US$ billion)	MDGs Financing Gap (US$ billion)
2000/01	1.92	6.1	4.18
2001/02	1.88		4.22
2002/03	2.02		4.08
2003/04	3.5		2.6
2004/05	3.96		2.14

Source: Anyango, G. (2005)

The debt service for 2004/05 was about US$ 0.68 billion. If this debt was to be cancelled and resources channelled to MDGs, the financing gap in the same year would decrease from 2.14 to 1.46 US$ billion. This means that even with debt cancellation, the MDG financing gap is still big. Overall, debt cannot be sustainable in the light of the challenge of meeting the MDGs in Kenya. Debt sustainability must therefore be redefined in terms of the challenge to meet the goals. Looking at the revenue figures vis-à-vis the debt burden and the MDGs financial requirements, the challenge of meeting the goals is real. Resource constraints will continue to undermine the government's efforts to meet the goals.
With the current 4.3% growth rate which is below the desired 7% to sustain the implementation of the goals, the government will continue to encounter severe constraints in addressing the goals. Consequently, the government will need external assistance to move at faster pace in implementing the goals. However, though at a slow rate Kenya is making progress towards meeting the goals. The Government is implementing several innovative measures to accelerate their implementation. These include the government decision to mainstream MDGs national planning and budgeting, 20% of Local Authority Transfer Funds (LATF) to MDGs, Constituency Development Fund (CDF) and other constituency based funds are in a big way addressing MDGs. With this initiative Kenya is likely to meet most of the goals if not all by 2015 (Government of Kenya, 2005).

Conclusion and Recommendations

In Kenya, debt service has crowded out funding for capital and social expenditures. After debt servicing and salaries, there is little left for core obligations of the government, basic infrastructure, education, health and other essential services to create an enabling environment for the private sector. The government has resorted to occasional debt rescheduling and expensive short-term domestic borrowing to finance its expenditures. Fiscal policy is constrained by the need to service and pay public debt. Debt has distorted the economy and complicated macroeconomic management.

In our view, debts are only 'sustainable' when the debt service burden leaves the debtor countries with sufficient funds to meet their human rights obligations under the internationally agreed MDGs. Nevertheless, under the HIPC Initiative, Kenya is classified as having sustainable debt levels. Thus, access to debt relief was denied at a time when the country was experiencing a net outflow of resources over the past two decades. The main contributor to these outflows was and still is the heavy debt service burden.

The case of Kenya highlights the narrowness of the HIPC debt sustainability criteria that compares external debt to exports. Kenya's problem lies not only in the external debt, but also in the internal debt. Since internal debt service accounts for 13% of government expenditure, we believe it should be taken into consideration. Kenya's debt sustainability is not enough to help it attain the MDGs by 2015. Moreover, the country's debt sustainability is likely to be undermined by the HIV/AIDS pandemic.

Apart from the external problems created by donors in tackling Kenya's debt crisis, several weaknesses in the planning and budgeting processes have contributed to Kenya's debt un-sustainability. Some of the factors that exacerbated Kenya's economic quagmire include the overvalued exchange rate, negative real interest rates as well as an import-substituting industrial strategy that characterized the country's overprotection. The overvalued currency encourages imports as they are less expensive and thus worsens the balance of payments. This could also have raised expectation for devaluation leading to capital flight. Consequently, depreciation can raise the stock of external debt.

Looking at the revenue figures vis a vis the debt burden and the MDGs financial requirements, the challenge of meeting the MDGs is enormous. Resource constraints will continue to undermine the government's efforts to meet the goals. With the current 4.3% growth rate, the government will continue to encounter severe constraints in addressing the goals. Consequently, the government will need external assistance to move at a faster pace in implementing the goals.

Key Recommendations and Way Forward

Create awareness that Kenya's debt is unsustainable. The creditor institutions have to change their debt sustainability thresholds in order to give a more realistic picture of the debt burden of countries like Kenya.

Create requisite publicity and awareness on the case. Kenya's debt sustainability analyses have to be considered as an issue of development policy and not only as an issue of payment obligation by international creditors.

Need to monitor government expenditure and exert pressure for better governance. Only with the implementation of a participative monitoring system would it be possible for CSOs to survey government expenditures.

Need to explore areas of common ground, nationally and internationally, so as to embark on an organized campaign

Need to explore opportunities of building working relationship with government and other key actors in the campaign

Ecuador

Ecuador's debt situation

As of June 30th, 2005, Ecuador's foreign debt was at US$ 17.6 billion, 60% (US$ 10.5 billion) of which was public debt, while the other 40% (US$ 7.1 billion), was private debt. Since Ecuador introduced the US$ as its currency (dollarization) in 2000, the foreign debt has evolved as follows:

Table 12: Ecuador's Foreign Debt from January 2000 to June 2005

Year	Total Sovereign foreign Debt	Of which: Public Debt	In % of total debt	Of which: Private Debt	In % of total debt
2000	13,216,3	10,987,2	83	2,229,1	17
2001	14,375,8	11,337,8	79	3,038,0	21
2002	16,236,3	11,336,9	70	4,899,4	30
2003	16,585,9	11,484,0	69	5,101,9	31
2004	17,007,8	11,059,3	65	5,948,5	35
Jun-05	17,602,1	10,537,7	60	7,064,4	40

Source: Central Bank of Ecuador, Monthly Statistical Bulletin # 1841, July 31, 2005.

The highest share of the foreign public debt (40%) is owed to private creditors and to an almost equal amount (39%) to multilateral organizations. Noteworthy amongst the multilateral creditors is the Inter-American Development Bank, IADB (18% of total foreign public debt) and among the private creditors with even 37% the 12- and 30- year tenure bonds. Amongst government partners, debt is more or less evenly distributed between Paris Club and non-Paris Club members with 10% and 11% respectively (Acosta, 2005).

Private debt: In recent years, Ecuador has well demonstrated its willingness to pay its debt with strong payments of capital and interests, thus maintaining the level of public external debt to about US$ 10.5 billion. This, however, gave room to the international financial markets to concentrate on the private sector, which in the past 4½ years has more than tripled its debt from US$ 2.2 billion to 7.1 billion, reaching to be 40% of total external debt. For Ecuador, the rapid growth of the private sector's debt is a bomb waiting to explode. In the past, there have been incidents when, in lieu of the private sector's inability to pay, the State has taken over this debt, following the immoral mechanism in which the private sector, through the accumulation of debt, "privatizes the earnings" and then, when it is time to pay up, it "socializes the losses".

Net transfer on debt: As a result of its foreign debt operations and the strong commitment of the public sector to pay off its obligations, between 2001 and the first trimester of 2005, the principal and interest payments were much higher than the new disbursements and thus have generated an outgoing net transfer of resources of between US$ 442 million and US$ 1,160 million (Acosta, 2005).

Fiscal burden of Public Debt: To illustrate the fiscal burden of the public debt, we use the Central Government's Consolidated Budget for 2006, prepared on August 31, 2005 and presented in Congress for approval. The budget is for US$ 8.6 billion, with a current deficit of US$ 430 million. US$ 1.9 billion are budgeted for principal payments and US$ 1.0 billion for payment of interests, making a grand total of US$ 2.9 billion for public debt service. This represents exactly a third, 33.36%, of the total budget.

At the same time, in order to finance the deficit, US$ 2.3 billion are contemplated in new loans, which compared to the US$ 1.9 billion in capital payments, represents an increase of US$ 425 million. Adding a variation of 5% in assets and liabilities, the increase covers the current deficit. Thus, one third of the budget is compromised for debt service, while new debts are acquired in order to cover the deficit. This confirms that a vicious circle exists in which new debts are incurred in order to cover old debts.

Debt servicing to export ratio: If we have a look at this ratio, it becomes clear that it is the alarmingly high level of private debt that constitutes a problem for Ecuador. From 2001 to 2003, the sales of oil crude and its derivatives, banana, coffee, shrimps, flowers, cacao, etc., plus transportation, tourism and other services sold by Ecuador, were insufficient to pay the Total foreign debt service. The income produced was not enough to cover these obligations as can be seen in table 13. In 2004 and the beginning of 2005, this relationship has improved to about 85%, mainly due to the increase in the price of certain export goods, such as crude oil.

Table 13: Ecuador's debt service to export (Million dollars)

Year	Public Foreign Debt Service to exports (%)	Public and Private Foreign Debt Service to exports (%)
2001	28.8	104.3
2002	23.1	113.3
2003	20.5	103.9
2004	17.6	81.6
Jan. – Mar. 2005	15.5	84.6

Source: Central Bank of Ecuador, July 2005

The problem of domestic debt

However, in Ecuador's current economic situation, even this indicator is incomplete. Due to intense internal pressure, the government has fallen back on another strategy to refinance the budget deficit after immense interest payments: the accumulation of internal debt. The situation has become more serious since the dollarization process in 2000, because of the internal debt. In order to pay that debt and the interests it accrues, dollars must be available, and with dollarization, these can only be acquired from foreign sources. The Public internal debt includes bonds, short and long term certificates, and debts with specific government entities. Many of them began with the "Banking savagery" with which the government aided the private banks' irresponsible management.

Table 14: Development of public domestic debt, 2000 to August 2005

Year	2000	2001	2002	2003	2004	August 2005
Bonds and Certificates	2,770	2,732	2,670	2,914	3,398	3,772
Government Entities	54	69	101	102	91	146
Total domestic debt	2,824	2,801	2,771	3,016	3,489	3,918

Source: Ricardo Patiño: Ecuador's Internal Public Debt 2005

Sovereign Debt

By including the public domestic debt in the analysis, we arrive at the concept of sovereign debt, which includes the external private debt and the total (external and internal) public debt. If we have a look at table 15, we can see that Ecuador's sovereign debt rather from remaining stagnant, has in fact increased dramatically in recent years:

Table 15: Ecuador's sovereign debt, 2000 to August 2005 (Million dollars)

Year	Public Debt			Private external debt	Total Sovereign debt
	External	Domestic	Total		
2000	10,987.2	2,824.0	13,811.2	2,229.1	16,040.3
2001	11,337.8	2,801.0	14,138.8	3,038.0	17,176.8
2002	11,336.9	2,771.0	14,107.9	4,899.4	19,007.3
2003	11,484.0	3,016.0	14,500.0	5,101.9	19,601.9
2004	11,059.3	3,489.0	14,548.3	5,948.5	20,496.8
2005 (*)	10,537.7	3,918.0	14,455.7	7,064.4	21,520.1

Sources: Central Bank of Ecuador and Patiño 2005
(*) External public debt is until June, 2005 and internal debt until August, 2005
As can be seen, the external public debt has been maintained fairly steady between US$ 10.5 and 11.5 billion with great sacrifice, but the Public Internal Debt has grown by US$ 1 billion from the year 2000 until August 2005, while the Private External Debt has even tripled during that same period, from US$ 2.2 to 7.1 billion. However, it is when we look at the consequences for debt servicing, that the seriousness of this situation becomes evident: Although the public domestic debt and private external debt are still much lower than public external debt, the servicing of this debt consumes higher amounts:

Table 16: Public debt service from 2001 to march 2005 (Million dollars)

Year	Public Debt Service			Private external Debt Service	Total Sovereign Debt Service
	External	Domestic	Total		
2001	1,622.90	664.7	2,287.60	4,264.00	6,551.60
2002	1,407.00	1,046.00	2,453.00	5,482.90	7,935.90
2003	1,450.10	1,055.50	2,505.60	5,903.30	8,408.90
2004	1,535.40	2,396.30	3,931.70	5,588.70	9,520.40
Jan. – Mar. 2005	375.2	415.9	791.1	1,627.70	2,418.80

Source: Central Bank of Ecuador
These values lead to the relationship between sovereign debt and exports which is shown in the next table:

Table Ecuador's sovereign debt service indicators

Year	Total Sovereign Debt Service	Export of goods and services	Indicator %
2001	6551,6	5643,7	116,09
2002	7935,9	6082,2	130,48
2003	8408,9	7078,8	118,79
2004	9520,4	8734,1	109,00
Jan. – Mar. 2005	2418,8	2420,9	99,91

Source: Author
From this perspective, when considering Ecuador's sovereign debt service for the first trimester of 2005, favoured with the increase in the price of crude oil, it still represents 110% of total exports. All efforts to sell Ecuador's products, primary and industrial, traditional and non-traditional, even services, such as tourism and transportation, to the rest of the world,

are still not enough to cover sovereign debt. At the same time, the total amount of debt in 2004, US$ 9.5 billion, is more that the nation's total 2006 budget of US$ 8.6 billion.

Country experience with Re-structuring the Foreign Debt

International creditors are willing to negotiate a re-structuring of debts as long as they can assure continuity in the servicing of the debt and achieve certain advantages with respect to the existing situation. The debt re-negotiation that changed from 1995 Brady Bonds to 2000 Global Bonds, with US$ 1.25 billion in 12 years and US$ 2.7 billion in 30 years, is an example of this operative principle in the international financial agencies[6]:
Creditors were given, before their maturity, US$ 722 million in US Treasury Zero Coupon Bonds, which acted as collateral to the Brady Bonds.
Approximately US$ 161.1 million in overdue payments were immediately cancelled.
The acquisition of 12-year Global Bonds was programmed in the secondary market at 10% of their original value starting the sixth year, and 3% of their original value for 30-year Global bonds starting the 13th year. That means that, for the 12-year Global bonds, US$ 125 million must be bought at nominal prices between 2006 and 2011, while the other US$ 500 million must be bought in 2012. For 30-year Global Bonds, US$ 81 million must be bought at nominal prices between 2013 and 2029, while the other US$ 1,323 million must be bought in 2030. This measure guarantees an ongoing demand for these pieces of paper and, therefore, their high prices, even above their nominal value[7].
An extremely high fixed interest rate of 12% was negotiated for the 12-year Global Bonds and an annual growth of one percentage point, from 4% to 10%, for the 30-year Global Bonds. In 2005, these bonds were earning 8%.

Debt Sustainability and MDGs

Depending on economic growth, the Ecuadorian government's MDG Team has simulated different financing scenarios, as shown in table 17:

Table 17: MDGs – Financing Needs (in Million US$)

Years	Real GNP Growth Scenarios		
	4.5% annually	3.4% annually	2.4% annually
2005	119.9	563.3	874.3
2006	222.0	679.5	992.9
2007	231.8	703.9	1,019.4
2008	231.6	718.7	1,036.3
2009	216.0	717.1	1,035.3
2010	227.0	743.6	1,063.2
2011	236.5	769.0	1,089.9
2012	243.1	792.0	1,113.9
2013	249.3	815.0	1,137.8
2014	256.8	840.0	1,163.3
2015	270.0	871.1	1,194.8

[6] For more details, see Acosta (2005)

[7] Ecuador's 2012 Global Bonds will reach 100.25 on July 25, 2005 according the monthly bulletin of the Fiscal Policy Observatory of August, 2005.

Total	2,504.0	8,213.2	11,721.1

Source: Govt. Ecuador: MDG costing by MDG Team, Ecuador

In the first two scenarios, the MDG can be achieved if social expenditures are prioritized, whereas in the third scenario, with the historic 2.4% real growth, the goals would not be achieved.

Under Ecuador's current conditions, using an international macroeconomic simulation model that does not include specific aspects of Ecuador's economy, leads to unrealistically optimistic annual growth rates, such as the 3.4% and 4.5% rates. The 2.4% annual growth rate appears more realistic; however, it still explicitly excludes two important factors: The high costs of the public debt and the adverse effect it has on any attempt to increase social expenditures in order to achieve the MDGs. Moreover, in none of the estimated growth rates the impact of Ecuador's obligation to buy back the 2012 and 2030 Global Bonds is considered, nor is the economy's external vulnerability, which can be determined by analyzing the increasingly negative non-petroleum commercial balances between 2000 and 2004, shown in table 18:

Table 18: Commercial Balance without petroleum 2000 to 2004 (Million dollars FOB)

Year	Exports	Imports	Commercial Balance
2000	2,484	3,213	-729
2001	2,778	4,731	-1,953
2002	2,981	5,773	-2,792
2003	3,432	5,501	-2,069
2004	3,319	6,570	-3,251

Source: Acosta, 2005

While non-petroleum exports grow at 7.5% annually, less than 1 billion per year, non-petroleum imports grow at an average 19.6% per year, doubling from 3.2 billion in 2000 to 6.5 billion in 2004. This situation is only sustainable due to the income produced by the petroleum commercial balance which, in 2004, reached a value of 3.5 billion, allowing a small earning in the general commercial balance of 232 million.

External Shocks

Difficulties in production and/or a drop in the international price of crude oil will definitely lead to a need of financing the resulting commercial deficit, generating more pressure to fall into debt. This is why external vulnerability must be included and the achievement of the MDGs based on a re-assessment of the servicing of Ecuador's sovereign debt must be reconsidered.

Now, with the probable signing of a free trade agreement imposed by the United States on Colombia, Ecuador and Peru, the opening of the North American market, conceded unilaterally to Ecuador in the Andean agreements to promote commerce and control drug trafficking, will now be reciprocated and the frontiers opened to manufactured and agricultural products from North America. This will exert greater pressure on the non-petroleum commercial balance and contribute to internal unemployment derived from the unequal competition of the North American products.

MDGs and Inequity

These observations lead us directly into the essence of the problem of achieving the MDGs and debt sustainability in the context of Goal 8: "To promote a worldwide partnership for development" and Targets 12 – 15 "To promote an initiative to relieve the debt of highly

indebted poor countries" to "Debt service as a percentage of the exportation of goods and services."
The first problem is the definition of "Highly Indebted Poor Countries". Using the World Bank's criteria, countries are sorted according to per capita income. Dividing Ecuador's 2005 GNP by the 2005 population results in US$ 2,400 annually, which places Ecuador as a middle income country and, therefore, with no access to the debt relief initiative.
However, since this indicator does not consider income distribution, it is inadequate to express the country's situation. Table 19 shows that income distribution in the urban sector for the year 2004 is very unequal.

Table 19: Income Distribution in the urban sector, 2004

Income Quintile	Participation Percentage in GNP Growth
1	1.73
2	6.70
3	9.47
4	19.78
5	62.32
TOTAL	100.00

Source: Ecuadorian Social Indicators System, SIIE, 2005
The top quintile receives 62.3% of the income, while the bottom 60% of the population receives less than 18% of total income. The poorest 40% of the population, the two bottom quintiles, barely keeps 8.4% of total income, while the share of the poorest 20% is only 1.7%. Definitely, the national average income is not representative of Ecuador's average population. With the insensitive World Bank's country allocation criteria, which are based on the average income, realities as they exist in Ecuador cannot be captured. The international community turns a cold shoulder to the fact that here the top 40% of the population deny access to debt relief to the bottom 60%.

Illegitimate Debt

With regard to the concept of illegitimate debt, both domestic and foreign, the legal standing is under study by the Latin American Parliament[8]:

1. The origin of the debt is being questioned because many debts were contracted under false and/or fraudulent contractual instruments. In these cases, the respective national civil and penal legislation should be applied, so that, once the illegal basis of the negotiations is proven, the contracts can be annulled. Examples are the cases in which private debts were arbitrarily nationalized, making them public debts. These actions have been deemed illegal and even criminal.
2. The usurious, unilateral and unlimited increase of interest rates, which began in 1980 by the Federal Reserve Bank and started a domino effect that raised the interest rates of all external debts, legal or illegal.
3. The Brady Plan Agreement that forced debtor nations to renegotiate their debts, implicitly forcing them to recognize the illegitimate debts, including all interests and penalties accrued by the time the agreement was signed.
4. The collusion of the government negotiators, who shortly after the agreements, quit their government jobs and were immediately hired as high-priced directors of the financial institutions that benefited from their negotiations.

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[8] Taken from: Patricio Pazmiño Freire: Citizen Auditing and Illegal Debts.

A concrete example, duly documented, of illegitimate debt in Ecuador is the US$ 52.5 million contracted in 1980 by the Ecuadorian Banana Fleet, a private company that bought 4 ships from Norway. The loan was included in the Exports Shipping Campaign, supported by the Norwegian government as "loans for development" to aid developing nations, granting loans to buy ships with approval from the Norwegian Agency for Guaranteed Exports (GIEK). In 1987, when the Banana Fleet entered bankruptcy, the ships were acquired by TRANSNAVE, a state corporation, and thus, the state assumed a pending debt of US$ 26.2 million with GIEK.
US$ 12.7 million were fully paid to the Norwegian Government. However, the remaining US$ 13.5 million, which was treated in seven agreements with the Paris Club, has grown to US$ 50 million, despite the fact that US$ 14 million have already been paid in capital and interest. Considering the amounts of US$ 14 million paid and of US$ 50 million owed, the original debt of US$ 13.5 has grown 4.7 times. On top of it all, it is unknown what happened to the ships since both companies have been liquidated, yet the debt is still being paid by Ecuador.
The elements that make this debt illegitimate are:
That the origin of this debt was not in aid to Ecuador but to the Norwegian shipping industry,
That the Ecuadorian Government assumed a private debt that became a public debt, and
The usurious conditions imposed on the country in the Paris Club agreements.
This case has been brought up before the Civil Commission for Corruption Control, which has decided to ask the Ecuadorian Government to make demands on the Norwegian Government for the elimination of this debt.

The Ecological Debt

The Ecological debt is a claim against the international commercial and financial operators that damage the Ecuadorian natural environment and, thus, turn Ecuador into a creditor of an ecological debt due to environmental and social damages to the country. In this scenario, the dollarization of the Ecuadorian economy plays a key role because, due to the impossibility of emitting a foreign currency, the dependency on external resources is augmented, which leads to a spiral need to export in order to obtain the much needed dollars.
Starting in the year 2000 with the dollarization process, the cost structure of export products has changed, generating a process of "reprimarization", which has had an adverse effect on manufactured goods. At the same time, within the group of the primary export products, a concentration or specialization process has occurred that has reduced the number of export goods. For instance, in 2004, primary export goods represent 78% of total exportations and within that group, petroleum and bananas made up 83% of the primary exports[9].
These exports are associated with environmentally intensive production processes, that is, they have a strong environmental impact. For example, to export a metric ton of flowers requires moving 300 metric tons of earth. The production and consumption activities of the developed North increase the pressure for further primary exports, producing a collateral environmental damage that should be charged as an ecological debt and which continues to increase in the current globalization process.

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[9] See Fander Falconí: The Ecological Impacts of the Dollarization Process, FLACSO, Quito Ecuador, June 2005.

Proposals from Civil Society organizations

In a workshop on debt sustainability that took place in Guayaquil on September 14th and 15th, 2005, the following proposals were specified, mostly responding to the special circumstances of Ecuador's sovereign debt[10]:
To consider Gross National Product (GNP) instead of GDP for debt sustainability analysis. In the Ecuadorian economy there is an ample participation of transnational companies, starting with crude oil exploitations, and the transfer of their earnings to their countries of origin reduces the income that really belongs to this country.
To use the income median instead of the average as the indicator to classify each country's income level for access to debt relief programs. With so much dispersion in Ecuador's income, using per capita GDP, the resulting average income of US$ 2,400 does not express the real situation of the majority of the population, whereas the median, which is US$ 650, is much more realistic.
To introduce contingency clauses for cases of external shocks in the loan agreements. For instance, to invert the adjustment mechanism imposed by the IMF, that makes provisions for debt servicing when the prices of exportation products drop, and instead, to actually reduce debt servicing in that situation.
To use the MDG as reference framework for debt sustainability. The achievement of the MDG should be adequately funded in order to prioritise it, and only the remainder should be used to service debt. With this perspective, some problems with the generation of public revenue become evident:
Currently, the state receives about 20% of the total value from oil exploitation, while 80% goes to the hands of the transnational companies, which is an unsustainable reality for the Ecuadorian people.
With oil reserves of only 2 to 3 decades left, it is necessary to begin renegotiating oil exploitation contracts with the private companies and to recover the operational capacity of the state's company Petroecuador, which is currently highly deteriorated as a result of a systematic policy of non-maintenance.
To modify the taxing structure between income taxes, property and inheritance taxes, and indirect taxes. The tax collection system must be improved and the land tax system must become more transparent.
To set limits to debt servicing. The debt service reduces significantly the resources needed for the MDGs, a limit should be set for total debt servicing, including external and domestic debt, for example, 20-25% of total exports.
Specifically in the case of Ecuador, the indicators should be calculated separately for petroleum and non-petroleum exports, due to the weight of petroleum based exports and their variability in time.
Support the initiative to create a Latin American Monetary Fund, with founding members Venezuela, Argentina, Brazil and Ecuador. An alternative source of resources in the region reduces the financial dependency on the IMF and its agents, opening a more autonomous space for the management of external funds.
End the holding of the AGD Bonds by the Central Bank and the Pacific Bank and liquidate the asset in the hands of AGD and the Central Bank. The first measure would eliminate an unjustified and hateful internal debt that has already cost the nation US$ 520 million in interests alone. The second measure would allow a recovery of nearly US$ 6 billion into the nation's General Budget.
Demand the payment of the ecological and social debt. The social capital lost in the plundering of our economies, the loss of biodiversity, the exportation of our natural

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[10] "Ecuador: An Alternative Vision of Debt Sustainability and the Millennium Development Goals (MDGs), organized by the Jubileum 2000 Network, Guayaquil, ILDIS, Observatory of Developmental Cooperation in Ecuador, Sudwind Economic and Ecumenical Institute and the German Evangelical Churches' Development Service (EED).

resources and our poverty, due to the acts of unfair international commercial and financial relations, should all be reimbursed in the framework of the North-South relations. Establish a month of external debt rejection. Garner the support of Civil Society by informing them of the seriousness of the problem and its consequences in their personal lives. Explain how the debt affects the extension and quality of the basic services they receive, their quality of life and that of their descendents.

These proposals, rapidly explained in these pages, implicitly carry a deep change in the "rules of the game". It is a bet on the construction of a different future –Another world is possible - which cannot be achieved simply with speeches and radical opposition. It is not about trying to construct a better system of material accumulation. It is not just about doing the things that have been done in the past, but doing them better, or about garnering support to patch a few things. Profound changes are needed. It is urgent to change the simple visions that turned the economy into the motor of society. This is a challenge for a different future.

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"A finance minister of an over- indebted developing country remitting Government revenue for servicing external debt before the human rights of his fellow citizens are fulfilled should be clear that he may commit a Human Rights violation"

"If a business goes bust, the affected people are supposed to be equipped with minimum means to ensure a roof over the head, bread in the cupboard and means to send the children to school"

African Forum and Network on Debt and Development

AFRODAD, is a civil society organization born of a desire to secure lasting solutions to Africa's mounting debt problem which has impacted negatively on the continent's development process. AFRODAD aspires for an equitable and sustainable development process, leading to a prosperous African Society. To secure policies that will redress the African Debt Crisis based on a human rights value system.

Jubileo 2000, Guyaquil

Jubileo 2000 Red Guayaquil ha desarrollado multiples acciones para incidir ante el gobierno y los acreedores internacionales por renegociaciones justas y transparentes de la deuda externa ecuatoriana. En las mismas han participado diversas organizaciones sociales del ecuador y de las redes de solidaridad a nivel internacional.

KENDREN

The goal of the KENDREN is to empower the public on issues of economic governance and advocate for sustainable debt management.

Insitute for Ecumene and Economy- Südwind

There is a connection between the prosperity of industrial nations and the poverty that is prevalent across broad sections of society in developing countries. The political world, the economy as well as the consumer – must bear part of the responsibility for the deficiencies in developing countries. How, in the interests of the poor, can the situation be transformed to bring about economic justice?

The Tanzania Coalition on Debt and Development (TCDD) is a coalition of Civil Society Organization (CSOs) in Tanzania that has dedicated themselves to undertake lobbying and advocacy activities towards debt cancellation/relief, poverty eradication and sustainable human development. It provides a forum to a wide range of CSO's to participate and engage in the on-going national and international dialogue and debate on poverty, debt and development. It has contributed to the government's poverty reduction strategy by forging links with faith based organisations who have strong community links.

EED supports the development work of churches, Christian organizations and the voluntary sector. In this worldwide partnership, EED is participating in establishing a fair society. It takes and promotes action to arouse and enhance people's willingness to stand up to overcome need, poverty, persecution and violence.