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A theological critique of the HIPC debt initiative: redefining the sovereign debtor and creditor relationship

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CERTIFICATION

I, Lee Christine Moerman, certify that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy in the School of Accounting and Finance at the University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

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Of making many books there is no end, and much study wearies the body (Ecclesiastes 12:11).

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ABSTRACT

This thesis uses a theological perspective to extend the literature on accounting and accountability as applied to a secular context and provides insights into the role of supranational institutions and poor, indebted countries. In particular, this thesis focuses on the joint International Monetary Fund (IMF) and World Bank (WB) framework for debt relief specifically designed for a group of countries with unpayable external debt and extreme poverty, referred to as the Heavily Indebted Poor Countries (HIPC) Debt Initiative. Despite continued intervention, the HIPC Debt Initiative has failed to deliver debt relief and achieve poverty alleviation. This thesis provides analyses of this failure from a theological perspective and provides new insights and possibilities.

A theological perspective provides an alternate critique of the assumptions of the HIPC Debt Initiative. This thesis uses Jubilee Law as theory, as it explicitly focuses on the debtor/creditor relationship. In order to analyse the HIPC Debt Initiative, this thesis uses discourse analysis informed by Mannheim's sociology of knowledge. This methodology enables an analysis of artefacts, in particular institutional discourse, such as that produced by supranational organisations (IMF and WB). This discourse is explored at three levels of meaning and provides distinct insights to understand the HIPC Debt Initiative and the resultant failure.

The Jubilee Law has explicit themes of accountability, stewardship, intragenerational equity, intergenerational equity and notably still uses an economic rationale. These critical themes are used to offer insights into the HIPC Debt Initiative by redefining the debtor and creditor relationship. The redefinition places a new emphasis on the creditor's responsibility for debt relief and poverty alleviation. This new perspective shifts the debtor and creditor relationship from one of dependence on the creditor to one of interdependence between the debtor and creditor. This shift does not abrogate the debtor's responsibility but this concomitant shift of power offers emancipatory opportunities for poor, indebted countries hitherto not envisaged. The insight from this thesis offers an alternate set of propositions for the framework which offer emancipatory potential.

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GLOSSARY OF TERMS AND ABBREVIATIONS

AfDB	**Africa Development Bank -** one of the 4 MDB
AsDB	**Asia Development Bank** – one of the 4 MDB
Bilateral	Between two governments. Official bilateral credit credits guaranteed by the Governments or their institutions (e.g. export credits) or direct loans from the Governments or their institutions
BOAD	**West African Development Bank (Banque Ouest Africaine de Developpement)–** sub-regional MDB
BWI	**Bretton Woods Institutions** - created post –WWII, notably the IMF and the International Bank for Reconstruction and Development (known as The World Bank Group).
CAFOD	**Catholic Agency for Overseas Development**
CDB	**Caribbean Development Bank** is a sub-regional MDB.
CIRR	**Commercial Interest Reference Rate**- currency specific commercial interest rate is the discount rate that approximates with a world market interest rate by corresponding to secondary market yields on developed economy government bonds with maturities ≥ 5yrs. Currently uses US$ and is set at 5% (2005b, p. 113).
Concessional loan	Implies the interest rate is below market rate. Usually characterised by a grace period (interest only repayment) and long maturity profile. The grant element is the percentage difference between nominal value and NPV of the loan. If ≥35% a loan is considered concessional (IMF/WB, 2005b).
CSR	**Corporate Social Reporting**
DRS	**Debtor Reporting System**
DSA	**Debt Sustainability Analysis** is prepared by IMF,WB and debtor countries for HIPCs at the Decision Point. Measured as a ratio of external debt to exports and determines eligibility for the HIPC Initiative.
EBRD	**European Bank for Reconstruction and Development -** one of the 4 MDB
EC	**European Commission**
ECA	**Export Credit Agency**
EIB	**European Investment Bank –** institution for financing European Union
ESAF	**Enhanced Structural Adjustment Facility.** IMF facility that provides concessional financing for LICs and HIPCs to implement programs of macroeconomic stabilization and structural reform. Replaced in 1999 by the PGRF. One of the eligibility criteria for the HIPC Initiative is that a country must be ESAF/PGRF- eligible and IDA-only.
EU	**European Union**
Exports	Used as the denominator in the HIPC calculation of debt burden and relates to the gross three year retrospective average of goods and non-factor services. Converted to $US using average rate for the corresponding year of export and then converted as a weighted average for the denominator (IMF/WB, 2006b).

External debt	Debt owed by public and private entities resident in a country to non-residents and has a direct impact on the balance of payment of the debtor country. HIPC calculations of NPV of debt are converted to US dollars at base year of debt stock (IMFWB, 2006b).
G-7	**Group of 7 –** finance ministers from Canada, France, Germany, Italy, Japan, United Kingdom, United States of America.
G-8	**Group of 8 –** heads of government of G-7 + Russia.
GDP	**Gross Domestic Product** is the sum of what a country produces and is measured as total expenditure and total income. Used as a gross or a per capita measure of wealth.
GNP	**Gross National Product**
HIPC	**Heavily Indebted Poor Country –** a LIC with an unsustainable debt burden and Per capita income < US$695 (in 1996 at the time of the HIPC Debt Initiative) .
IaDB	**Inter-American Development Bank –** one of the 4 MDBs
IBRD	**International Bank for Reconstruction and Development**, a facility as part of the World Bank Group lending to middle income countries.
ICSID	**International Centre for Settlement of Investment Disputes** - one of the five institutions that comprise the World Bank Group. ICSID provides facilities for conciliation and arbitration of international investment disputes (www.icsid.worldbank.org).
IDA	**International Development Association** is part of The World Bank Group that provides interest free loans to poor countries with per capita incomes < US$1025 and lack creditworthiness to borrow from the IBRD (World Bank, 2006b).
IDG	**International Development Goals**
IFAD	**International Fund for Agricultural Development –** an agency of the United Nations to combat poverty and hunger through country specific agricultural development via low interest loans and direct assistance www.ifad.org
IFC	**International Financial Corporation –** one of the five institutions that comprise the World Bank Group. IFC provides investments and advisory services to build the private sector in developing countries (www.ifc.org).
IFI	**International Financial Institutions**
IMF	**International Monetary Fund**
I-PRSP	**Interim PRSP**
IsDB	**Islamic Development Bank**
LIC	**Low Income Country.** Per capita income < US$935 (at 2009). In 1996 at the time of the HIPC Debt Initiative it was US$895.
MDB	**Multilateral Development Banks** are a series of regional and sub-regional banks that lend for development at concessional rates to borrowers. Includes the World Bank Group and four regional development banks.
MDG	**Millennium Development Goals –** see Appendix 6
MDRI	**Multilateral Debt Relief Initiative**
MFI	**Multilateral Financial Institutions** lend to members for development projects or specific activities e.g. IDB, IFAD.

MIGA	**Multilateral Investment Guarantee Agency** - one of the five institutions that comprise the World Bank Group. MIGA promotes foreign direct investment (FDI) into developing countries by providing: political risk insurance for foreign investments in developing countries, technical assistance and dispute mediation services (www.miga.org).
Multilateral	Between government and IMF/WB or regional development banks.
NGO	**Non Government Organisation**
NPV	**Net Present Value –** recognises the time of value of money and is the difference between the present value of future cash flows discounted using a required rate of return and initial outlay/inflow of cash.
ODA	**Official Development Assistance** defined by the OECD as concessional loans or grants (25% grant element @ 10% discount rate) aimed at economic welfare and development. Does not include defence related lending, commercial terms or export credit agency lending.
OECD	**Organization for Economic Cooperation and Development**
OPEC	**Organisation of Petroleum Exporting Countries**
PEM	**Public Expenditure Management** system used to track all government budgets spending on poverty reducing actions.
PPRSP	**Poverty Reduction Strategy Paper**
PRGF	**Poverty Reduction Growth Facility** (replaced ESAF in 1999). For concessional lending (0.5%, 10 years, 5½ years grace) from this facility countries must produce a PRSP or I-PRSP and have a per capita income of < US$895.
Private Debt	Debt is that owed by the private sector.
Public debt	External debt owed by the public sector or owed by the private sector guaranteed by the public sector.
Revenue	Used in HIPC calculations as current central government revenue excluding grants. Converted to US dollars using year average exchange rate (IMF/WB, 2006b).
SDR	**Special Drawing Rights** are the IMF's unit of account. The value is set daily using weighted average of the euro, Japanese yen, pound sterling and US dollar.
SDRM	**Sovereign Debt Restructuring Mechanism**
UN	**United Nations**
WB	**World Bank Group** consists of 5 institutions, including two developing investment institutions, the IBRD and IDA which provide loans for low to middle income countries.