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## Appendix A

# Multilateral Institutions Participating in the HIPC Initiative

AfDB / AfDF	African Development Bank/African Development Fund
AMF	Arab Monetary Fund
ADB	Asian Development Bank
BADEA	Arab Bank for Economic Development in Africa
BCEAO	Banque Centrale des Etats d’Afrique de l’Ouest
BDEAC	Banque des Etats de l’Afrique Centrale
BOAD	West African Development Bank
CABEI	Central American Bank for Economic Integration
CAF	Corporación Andina de Fomento
CDB	Caribbean Development Bank
CMCF	Caricom Multilateral Clearing Facility
EADB	East African Development Bank
EU/EIB	European Union/European Investment Bank
ECOWAS	Fund for Cooperation, Compensation, and Development of the Economic Community of West African States
FADES	Arab Fund for Social and Economic Development
FECECE	Conseil de l’Entente
FOCEM	Fondo Centroamericano de Estabilización Monetaria
FONPLATA	Fund for the Financial Development of the River Plate Basin
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IsDB	Islamic Development Bank
NDF	Nordic Development Fund
NIB	Nordic Investment Bank
OPEC Fund	Organization of Petroleum Exporting Countries Fund for International Development
PTA Bank	Eastern and Southern African Trade and Development Bank

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## Appendix B

# Countries Classified by Income

### Low-income countries

Afghanistan	Guinea	Nicaragua
Angola	Guinea-Bissau	Niger
Armenia	Guyana	Nigeria
Azerbaijan	Haiti	Pakistan
Bangladesh	India	Rwanda
Benin	Indonesia	São Tomé and Príncipe
Burkina Faso	Kenya	Senegal
Burundi	North Korea	Sierra Leone
Cambodia	Kyrgyzstan	Somalia
Cameroon	Lao PDR	Sudan
Central African Republic	Lesotho	Tajikistan
Chad	Liberia	Tanzania
Congo, Democratic Republic of	Madagascar	Togo
Congo, Republic of	Malawi	Uganda
Côte d'Ivoire	Mali	Ukraine
Eritrea	Mauritania	Uzbekistan
Ethiopia	Moldova	Vietnam
Gambia	Mongolia	Yemen
Ghana	Mozambique	Zambia
	Myanmar	Zimbabwe
	Nepal	

## Lower-middle-income economies

Albania	Georgia	Paraguay
Algeria	Guatemala	Peru
Belarus	Honduras	Philippines
Bolivia	Iran	Romania
Bosnia and Herzegovina	Iraq	Russia
Bulgaria	Jamaica	Sri Lanka
China	Jordan	Swaziland
Colombia	Kazakhstan	Syria
Cuba	Latvia	Thailand
Dominican Republic	Lithuania	Tunisia
Ecuador	Macedonia	Turkmenistan
Egypt	Morocco	West Bank and Gaza
El Salvador	Namibia	Yugoslavia
	Papua New Guinea	(Serbia-Montenegro)

## Upper-middle-income countries

Argentina	Lebanon	Puerto Rico
Botswana	Libya	Saudi Arabia
Brazil	Malaysia	Slovak Republic
Chile	Mauritius	South Africa
Costa Rica	Mexico	South Korea
Croatia	Oman	Turkey
Czech Republic	Panama	Uruguay
Estonia	Poland	Venezuela
Hungary		

## High-income economies

Australia	Hong Kong	Portugal
Austria	Ireland	Singapore
Belgium	Israel	Slovenia
Canada	Italy	Spain
Denmark	Japan	Sweden
Finland	Kuwait	Switzerland
France	Netherlands	United Arab Emirates
Germany	New Zealand	United Kingdom
Greece	Norway	United States

Source: World Bank, *Global Development Finance* CD-ROM, 2001.

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## Appendix C

# Odious Debt

In this appendix, we explore one of the more persuasive arguments for debt relief: the injustice of requiring citizens of poor countries to pay back debts that were used for purposes never intended to benefit them—and that they did not agree to in any democratic process—but were acquired by corrupt or otherwise illegitimate governments. We set the stage with a rough estimate of the magnitude of the problem, and then turn to five country case studies. We examine the experiences of the Democratic Republic of Congo (the former Zaire), Kenya, Nicaragua, Pakistan, and Uganda (four HIPCs and one country that some people have argued ought to be a HIPC). For each case, we report standard debt data and discuss what evidence we could find about factors likely to reflect odious debt, such as wealth accumulation by leading political figures, largely unproductive public investment or other spending, and capital flight.

Table C.1 shows the total share of annual commitments made by the international community during the past three decades to HIPCs that, in the year of the commitment, were ranked not free, corrupt, or both not free and corrupt in one or another of the widely known international indices. The first measure, an index of political and civil freedom, comes from Freedom House (available for the period 1972-99); countries are categorized free, partly free, or not free. The second measure, a corruption index, is from the *International Country Risk Guide* (available for the period 1982-95) and categorized on a scale of 0 to 6.

Using the first index, of the nearly \$140 billion of loans committed to HIPCs between 1972 and 1999, about 60 percent has gone to countries considered not free in the year they received the commitment. Using both

**Table C.1 Odious debt: Commitments to countries considered “Not Free” and “Corrupt” (billions of dollars)**

<b>Commitments</b>	<b>Amount</b>
To HIPCs, 1972-99 <sup>a</sup>	139.2
To governments rated not free (NF) <sup>b</sup>	82.6 (59 percent)
To HIPCs, 1982-95 <sup>c</sup>	85.6
Amount committed to countries scoring 0-3 on corruption scale <sup>d</sup>	57.1 (67 percent)
Amount committed to NF governments with 0-3 corruption scores	28.6 (33 percent)

a. Data for the 31 countries for which Freedom House data are available.

b. Freedom House rankings are based on annual surveys of political and civil liberties from 1972 to 1999. Countries are labeled as free, partly free, and not free according to these rankings.

c. Data for the 24 countries where both Freedom House and ICRG data are available.

d. The *International Country Risk Guide* (ICRG) corruption index is compiled by a private investment risk service and is scored on a scale of 0-6. The index is available from 1982 to 1995.

*Sources:* Commitments are from all creditors, World Bank, *Global Development Finance* CD-ROM, 2001.

indices, of the commitments made to countries between 1982 and 1995, 33 percent went to countries ranked both not free and corrupt (scores of 0-3). Of course, some of these commitments were not fully disbursed, but the commitments themselves signal the willingness of international donors to engage in these environments.

It is, in short, hard to deny that at least some of the debt of these countries could be considered odious. The case studies bring us to the same conclusion. As we discuss above in the text, however, it is difficult to make operational in any way the concept of odious debt—for example, in judging after the fact what amount of debt relief makes sense.

## **Democratic Republic of Congo (Zaire)**

The Democratic Republic of Congo (DRC) is a large resource-dependent country that has been ravaged by recession, dictatorship, and civil strife for the past three decades. It is perhaps the clearest case of a government accumulating debt for odious purposes and for nondevelopment objectives. From 1965 to 1997, under the dictatorship of President Joseph Desire Mobutu, the Zairian government received more than \$4.5 billion in strate-

**Table C.2 Resource flows and other indicators for the Democratic Republic of Congo (Zaire), 1970-99** (millions of constant 1995 dollars, annual)

Flow or indicator	1970-79	1980-84	1985-89	1990-94	1995-99	Total, 1980-99
Debt outstanding	5,736	5,157	8,867	9,629	8,901	8,141 (average)
Disbursements	824	363	392	163	1	4,596
Bilateral	186	158	108	24	1	1,454
Multilateral	61	84	265	139	0	2,440
Private	576	121	19	1	0	701
Total debt service	240	308	263	65	0	3,182
Debt transfers	583	55	129	98	1	1,414
Grants	343	282	330	360	168	5,695
Total net transfers	926	336	459	458	169	7,109
Debt to GNP	19	39	88	116	167	n.a.
Debt to exports	131	219	288	575	552	n.a.
Debt service paid to GNP	1	2	3	1	0	n.a.
Capital flight <sup>a</sup>	712	674	156	490	-349 <sup>b</sup>	13,099 (1970-96)
Fortune amassed by dictator	n.a.	n.a.	n.a.	n.a.	n.a.	4,000-5,000 <sup>c</sup>
Freedom House ranking	Not free	Not free	Not free	Not free	Not free	
Corruption ranking (0-6) <sup>d</sup>		0	0	0		

n.a. = not applicable

a. Capital flight data from Boyce and Ndikumana (2001). Capital flight data for other countries are from Schneider (2001), who does not include Democratic Republic of Congo in her dataset.

b. 1995-96 only.

c. Estimates vary (see below).

d. 0 = most corrupt. Data are from 1982 to 1995.

Source: World Bank *Global Development Finance* CD-ROM, 2001, unless otherwise noted.

gically motivated aid from Western governments and aid agencies (table C.2).

Recognizing Zaire as a linchpin of the Cold War, Western governments, as well as the IMF and World Bank, committed this financing to the Mobutu regime despite evidence that he had installed an essentially kleptocratic state where rampant corruption and lawlessness made development nearly impossible. Evidence suggests that little if any of this money went to increase government expenditure for development purposes. In 1965, per capita income in the DRC was \$340; by 1997, it had collapsed to \$113, making the DRC the second poorest country in the world.

### Accumulation of Congolese Debt

With its independence in 1960, the DRC was thrown into a state of chaos, until Mobutu consolidated power in a bloodless coup in 1965. For the

next decade, Zaire's<sup>1</sup> economy performed well, benefiting from favorable oil prices, and received large amounts of financing on commercial terms from abroad. In 1973, for example, total disbursements (new loans plus grants) to Zaire were more than \$1 billion, mostly from private creditors. During this period, the United States also invested significantly in Zaire to develop industrial capacity and infrastructure, including for a large electrical power-line project.

In the mid-1970s, Zaire's economy faltered with the first international oil shock, declining terms of trade (a 40 percent drop in copper prices in 1975), and the accumulation of debt without a corresponding buildup of productive assets. In 1973, Mobutu nationalized all major economic activities, and in 1974 Zaire went into arrears, first with its private creditors and then with official creditors as well. By 1975, Zaire's stock of debt was about \$3.7 billion, already 160 percent of exports. In 1975, Zaire was already a heavily indebted and poor country by today's standards.

The international community continued to lend to Zaire despite its arrears status, and despite increasing worries about the political and human rights abuses of the Mobutu regime. In 1979, arrears for the first time reached \$1 billion, and Mobutu agreed to a standby arrangement with the IMF, rescheduling bilateral and commercial debt so as to reduce arrears to less than \$100 million. Then, between 1980 and 1982, Zaire borrowed heavily again, receiving \$2.3 billion in new gross disbursements (including grants). The bulk of this new lending came from official bilateral sources, as private creditors pulled out of Zaire. Again, there is little evidence that any of this money was used for development purposes. With another major terms-of-trade erosion in the early 1980s, Zaire fell into recession and by 1983 its arrears had climbed back to \$830 million. Transfers from the international community fell as well, reaching a low of \$54 million in 1985.

In the second half of the 1980s, the composition of financing to Zaire changed again, as bilateral creditors backed off from providing new loans, and the IMF and World Bank filled the gap. In 1987, Zaire received support from the Structural Adjustment Facility, and the World Bank released the first tranche of a structural adjustment credit of \$150 million. Despite little progress toward the stated goals of the country's structural adjustment program, the World Bank gave the Zairian government the benefit of the doubt, and it released the second tranche in 1989. By early 1990, it became clear that Mobutu had little interest in adhering to the program, and he was cut off from all international financing.

In 1991, Zaire's debt reached its highest point, at nearly \$10 billion. The Mobutu regime stopped servicing its debt altogether, and since 1992 has been a rogue debtor to the international community. Zaire has been in

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1. Mobutu changed the name of the Democratic Republic of Congo to Zaire in 1967.

nonaccrual status to the World Bank since November 1993. In 1996, the civil war intensified in Zaire, and in May 1997 Mobutu fled the country as the rebel coalition named the Alliance of Democratic Forces for the Liberation of Congo (ADFLC) took control. The country has since been embroiled in a bitter civil war. The DRC is one of the 42 countries that is in principle eligible for the enhanced HIPC program, but its ongoing conflict status and massive arrears make it unlikely to benefit any time soon.

## **Odious Nature of Congolese Debt**

The debt amassed under the Mobutu regime seems to meet all of the criteria of odious debt. First, Mobutu's personal fortune leaves little doubt where much of the failed development assistance financing ended up. An investigation by the *Financial Times* estimated his personal wealth at \$4 billion (*Financial Times*, 12 May 1997, A1). The figure dropped subsequently because Mobutu was financing the war against rebel factions. Another source (*Washington Post*, 18 April 1997, "Mobutu's Fall from Riches to Rags," A22) notes World Bank documents estimating that Mobutu extracted about \$400 million a year from Zaire's copper and cobalt exports during the 1980s, and that this was only one component of his embezzlement of Zairian resources. The same source quotes rebels in 1997 claiming that Mobutu's holdings in Switzerland alone were \$4-5 billion. Assuming \$4 billion as a conservative estimate,<sup>2</sup> Mobutu's fortune was equivalent to about half of the DRC's total outstanding debt in 1997 and 28 percent of its GNP.

Mobutu's fortune reflected his theft of natural resources and excessive borrowing, most of which found its way into capital flight. Boyce and Ndikumana (2001) estimate the total capital flight from the DRC during the period 1970-96 as greater than the size of the accumulated stock of debt during this period. Capital flight was especially high during periods of crisis, reaching nearly \$2 billion in 1973-74, and again jumping to \$2 billion in 1978 and \$1 billion in 1990. Overall, capital flight averaged 3.2 percent of GDP annually (for comparison, spending on health averages 0.8 percent of GDP).

A recent World Bank study of the DRC highlights the heavy debt financing of nonviable development projects, especially during the initial period of Mobutu's rule, in 1967-74. Most prominent among these white elephants was a project in 1972 to construct the Inga-Shaba power line, financed in part by the US Export-Import Bank. The project was initiated for strategic purposes, but its cost ballooned to \$1.5 billion and its objective

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2. This seems conservative indeed, considering other reports that his wealth was as high as \$9 billion (*Times of London*, 5 May 1997).



was never realized. It is still the largest single contributor to the DRC's outstanding debt. Other white elephants include a \$250 million steel mill in Inga financed by the Italian government and a \$100 million World Bank loan in 1975 aimed at increasing the output of cobalt and copper mines (the output of which subsequently fell). The structural adjustment loans made by the World Bank and IMF in 1987 and 1989 also almost surely ended up financing activities that had no development benefits. Note, finally, that estimates of capital flight for the period 1970-96 represent more than 150 percent of the total outstanding debt of the DRC.

## Kenya

Kenya has an on-again, off-again record of economic reform during the past two decades—characterized by numerous plans and promises made in conjunction with, and with the support of, international donors—that have been either partially or unsatisfactorily enacted. The country has been victim to pervasive corruption, lack of commitment to reform by the political elite, and a number of economic and other shocks that have handicapped it. In the late 1970s, Kenya became the laboratory for what has now come to be known as structural adjustment, and it was the first country to receive the new type of large loans from the IMF and World Bank meant to support stabilization and structural adjustment programs.

The World Bank and IMF struggled with Kenya, unsatisfied with the pace and commitment to the adjustment program, and ended up with a checkered pattern of support during the next two decades, first committing resources and then delaying disbursement and on occasion cutting off Kenya completely. They released resources to support Kenya's reform effort beginning in 1980, cut off funding in 1984-85, reinforced a new plan in 1986, cut off funding again from 1991 to 1993, supported a plan in 1993, and then suspended programs again in 1997 (table C.3). The country experienced impressive growth immediately after independence (1964-70) and moderate growth in the 1970s, but its per capita growth fell to zero in the 1980s and was negative in the 1990s.

### Accumulation of Kenyan Debt

From its independence in 1964 until 1979, under the administration of President Jomo Kenyatta, Kenya followed an economic strategy based on strong state control and import substitution, though with a more market-oriented bias than many of its neighbors. It achieved impressive growth during this period (annual GDP growth of more than 5 percent during 1964-80), and was supported consistently by nearly all donors, as well as receiving private financing on commercial terms.

**Table C.3 Resource flows and other indicators for Kenya, 1970-99**  
(millions of constant 1995 dollars, annual averages)

Flow or indicator	1970-79	1980-84	1985-89	1990-94	1995-99	Total, 1980-99
Debt outstanding	2,195	3,319	5,080	6,264	5,846	5,572 (average)
Public and publicly guaranteed	1,600	2,783	4,395	5,505	5,521	5,354
Nonguaranteed	596	536	685	759	326	219
Disbursements	622	754	851	633	376	13,068
PPG disbursements	349	527	632	529	369	10,279
Bilateral	129	156	193	154	127	3,152
Multilateral	100	198	227	224	157	4,034
Private	120	172	212	150	85	3,093
Total debt service	283	509	599	646	648	12,015
PPG debt service	124	356	475	542	556	9,644
Debt transfers	339	245	251	-14	-272	1,054
Grants	211	347	515	751	379	9,959
Total net transfers	549	592	766	737	107	11,012
Debt to GNP	31	42	58	89	60	n.a.
Debt to exports	105	153	236	256	202	n.a.
Debt service to GNP	4	6	7	9	7	n.a.
<b>Export credits</b>						
Capital flight (percentage of GDP) <sup>a</sup>	-0.3	-1.3	3.7	-2.8	-3.9	-0.8
Military spending <sup>b</sup>		246 (1981-84)	266	210	199	4,601 (1980-99)
Arms imports			72	33	26 (1995-97)	
Freedom House ranking	Partly free	Partly free	Not free	Not free	Not free	..
Corruption ranking	..	3	3	3	..	..

n.a. = not applicable

PPG = public or publicly guaranteed

a. Capital flight is measured as Schneider's (2001) estimates for resident capital outflows, adjusted for debt forgiveness and cross-currency valuation for 1990-98. Capital flight data are available from 1975 to 1998. A positive sign represents capital outflow.

b. Swedish International Peace Research Institute, 1998 dollars.

Source: World Bank *Global Development Finance* CD-ROM, 2001, unless otherwise noted.

In the 1970s, Kenya received \$5.5 billion in net transfers, about 70 percent of which came from bilateral sources in the form of concessional loans and grants. Annual net transfers grew consistently, from slightly more than \$200 million in 1970 to \$1 billion in 1979. During this period, most of the bilateral and multilateral support to Kenya was provided for small discrete projects, and a large share (58 percent) of bilateral assistance

was in the form of technical assistance. The result of this external borrowing was the accumulation of a large stock of outstanding debt, but because Kenya managed to grow despite the continuing weaknesses in its economic model, its debt situation was manageable. In 1979, Kenya's \$3.3 billion stock of outstanding debt represented only 129 percent of exports, below even the enhanced HIPC Initiative's threshold of 150 percent.

In the late 1970s, a series of shocks—first commodity price declines in coffee and tea and then the second oil shock in 1979—destabilized and exposed underlying inefficiencies in Kenya's economy. When Kenyatta died in 1979, his vice president, Daniel Toroitich arap Moi, took over the presidency, and within a short period set out plans for a complete overhaul of the economy. Kenya received massive amounts of aid in the 1980s conditioned on structural reforms. Bilateral donors increasingly switched their assistance to grants, and the multilaterals moved away from project-based lending in favor of large balance of payments support programs. Between 1980 and 1990, Kenya received more than \$8 billion in net transfers, \$1.4 billion of which was balance of payments support from the IMF and World Bank.<sup>3</sup>

Despite the increased assistance, Kenya's economy faltered in the 1980s. In the early 1980s, Kenya attempted to comply with stringent IMF fiscal targets to stem inflation, but endemic corruption impeded more structural reforms and Kenya's 3.6 GDP growth rate during the period 1980-85 failed to keep pace with population growth (3.7 percent a year). Kenya experienced a brief recovery in the period 1986-89, but fell into a deep recession again in 1990.

Meanwhile, debt ballooned, topping \$6 billion by 1990, now 253 percent of exports. In 1980 Kenya's debt was split relatively evenly between bilateral, multilateral, and private creditors. By 1985, multilaterals held 50 percent of its outstanding debt. This trend was hastened by bilateral debt relief initiatives in the second half of the 1990s that amounted to \$700 million. The country was able to avoid arrears on its debt in the second half of the 1980s, due partially to the high levels of balance of payments support it was receiving. The recession in 1990, combined with the removal of balance of payments support in 1991, forced it into arrears that grew quickly, to 15 percent of outstanding debt in 1993.

Kenya's debt peaked in 1995, and it has been falling at about 7 percent annually since (due to bilateral debt forgiveness; multilateral debt has continued to grow). The country's debt has been reduced via the application of traditional Paris Club mechanisms, but it will not receive relief on its nearly \$3 billion outstanding debt to the multilaterals, which is below the HIPC threshold and is considered sustainable. In 1999, the IMF

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3. The major provider of assistance, the United Kingdom, backed away, and was replaced by Japan and the United States. Japan's share of aid to Kenya doubled from 4 to 8.6 percent from the 1970s to 1980s (and doubled again to 17 percent during the period 1990-96).

and World Bank pledged new loans of \$300 million to Kenya, contingent on a strict implementation list of anticorruption measures and other conditionalities that Kenya has yet to meet. In 2000, the IMF released \$50 million in drought relief to Kenya through its PRGF facility, but has held firm on releasing additional resources. Meanwhile there have been vocal calls from the Kenyan opposition for the international community not to support the Moi regime.

## **Odious Nature of Kenyan Debt**

The argument for odious debt in the Kenyan case is strong. A corrupt ruling elite has expropriated billions of dollars in waste and in amassing personal fortunes. Kenyatta and his family built up a huge fortune in land, precious gems, ivory, and casinos during the 1964-79 period of relatively successful growth and benign economic policy. In 1991, Moi's personal fortune was estimated at \$3 billion,<sup>4</sup> and more recently at \$4-5 billion. This sum represents 75-85 percent of Kenya's \$5.6 billion in publicly guaranteed debt stock and 150 percent of the debt accumulated during Moi's tenure as president. Transparency International's *Global Corruption Report 2001* ranks Kenya as one of the 10 most corrupt countries in the world, and estimates that the Kenyan government lost more than \$6 billion through corruption during the period 1991-97 (Transparency International 2001). In 1996, the top 10 percent of Kenya's population earned 47 percent of national income, making it one of the two or three most unequal countries in the world (World Bank 1996).

In 2000, a report of the Kenyan Parliamentary Anti-Corruption Select Committee (known as the Kombo Report) produced a 'list of shame,' which read like a who's who of President Moi's government, and recommended that all on the list be barred from ever holding public office. Among those cited were the vice president, George Saitoti; the minister of tourism, commerce, and industry, Nicolas Biwott;<sup>5</sup> and Moi's son, Gideon Moi.

The ruling elite has had only limited accountability to the Kenyan populace during the past two decades. Soon after taking power in 1964, Kenyatta consolidated power in the Kenyan central authority and instituted a quasi-democratic single-party state. After an unsuccessful coup attempt in 1982, Moi tightened controls on political and civil liberties, and he passed a constitutional amendment solidifying the single-party state. In 1988, the constitution was modified to give the president power to remove public servants and members of the judiciary, and secret ballots were replaced by a system of queue voting. In the same year, Freedom

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4. *New York Times*, 21 October 1991, A9.

5. Biwott allegedly accumulated hundreds of millions of dollars in overseas accounts, "possibly more than the president himself" (*Los Angeles Times*, 16 November 1991, A16).

House downgraded Kenya's status from partly free to not free, the lowest possible ranking.

In 1991—in response to increased internal resistance and a post-Cold War donor community demanding stricter compliance with democratic and corruption benchmarks—Moi's party rolled back the 1988 amendments. In December 1992, Kenya held its first multiparty elections. Despite this change, Kenya under Moi is still judged not free, democratic, or accountable by most internationally recognized measures.

Among other scandals that could be classified as white elephants are the Goldenberg scam in 1991, when a false exporter of gold and diamonds was paid \$400 million in export incentive credits from the government (a deal allegedly authorized by Moi and Saitoti to help finance the 1992 election);<sup>6</sup> Moi's purchase of 12 Mirage fighters from France for \$37 million in exchange for a free presidential jet after being offered similar hardware for half the price from the British government (but without a bribe to sweeten the deal);<sup>7</sup> the resale of food aid from Saudi Arabia to the Kenyan government at inflated prices by traders acting for Moi (it was reported that the windfall from one such deal was worth \$16 million);<sup>8</sup> and a \$25 million soybean processing plant pushed by Asitoti and Biwott against multiple expert opinions that the project was not viable (Kombo Report 2000).

Capital flight was extremely pronounced in the period 1985-87. In the span of 3 years, about \$2 billion flowed out of the country, representing 9 percent of annual GDP. However, figures for the 1990s suggest significant repatriation into the country.

## Nicaragua

During the past three decades, Nicaragua has been a magnet for politically motivated international financial assistance (table C.4). Periods of oppressive dictatorship and civil war, along with declining terms of trade and other economic shocks, have meant that any benefits of international assistance have not been reaped—while debt has ballooned. Nicaragua's GDP per capita in 1999 was half of what it was in 1975 (in constant 1995 dollars).

### Accumulation of Nicaraguan Debt

After an earthquake devastated the city of Managua in 1972, West Point graduate Anastasio Somoza changed the Nicaraguan constitution to allow

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6. *Time International*, 22 June 1998, 16.

7. *Financial Times*, 27 November 1991, 4.

8. *New York Times*, 21 October 1991, A9.

**Table C.4 Resource flows and other indicators for Nicaragua, 1970-99** (millions of 1995 constant dollars, annual averages)

Flow or indicator	1970-79	1980-84	1985-89	1990-94	1995-99	Total, 1980-99
Debt outstanding	1,140	3,447	7,480	9,667	6,032	5,766 (average)
Disbursements	265	417	723	342	327	11,691
Bilateral	51	301	686	201	60	6,751
Multilateral	64	99	22	136	258	3,216
Private	150	16	15	6	10	1,734
Debt service	130	142	37	197	223	4,293
Debt transfers	135	274	686	146	105	7,398
Grants	27	85	164	505	490	6,494
Total net transfers	162	359	850	650	595	13,893
Debt to GNP	38	111	364	1,657	350	n.a.
Debt to exports	134	558	2,017	2,342	699	n.a.
Debt service to GNP	4	5	1	16	13	n.a.
Capital flight (percentage of GDP)	2.4 (1977-79)	-2.5	22.4	0.5	-1.7	4.6 (1995-98)
Military spending (percent of GDP) <sup>a</sup>	n.a.	7.1	(40-50 percent in 1987)	n.a.	n.a.	n.a.
Arms imports	n.a.	n.a.	26 612	36	n.a.	n.a.
Freedom House ranking	Partly free	Partly free	Partly free	Partly free	Partly free	(Free in 1998)
Corruption ranking (0-6)	n.a.	3	5	5	n.a.	n.a.

n.a. = not available

a. Swedish International Peace Research Institute Yearbook, various years.

Source: World Bank *Global Development Finance* CD-ROM, 2001, unless otherwise noted.

for his return to the presidency in 1974, amid increased tension and resistance from the Sandinista National Liberation Front (FSLN) and the Democratic Liberation Union (UDEL). Between 1974 and July 1979, the economic downturn and internal political turmoil in Nicaragua dried up some of the private investment that had been available in the 1960s and early 1970s. But the international community committed \$800 million to Nicaragua and disbursed nearly the same amount on new and existing loans. These commitments came primarily from bilateral (US) and multi-lateral sources.

International assistance financed a growing share of the deficit, as volatility in agricultural commodity prices hurt Nicaragua's exports. The Somoza regime spent much of the assistance on agriculture and infrastructure projects. Domestic resources were thus freed for less legitimate purposes as an export-oriented economic agenda backed by the United States gave Somoza the leverage to engage in corruption and political oppression. He amassed a huge personal fortune during this period. In the 1970s, his family owned 23 percent of land in Nicaragua, and the majority of contracts made on foreign loans were given to his inner circle. His personal wealth is estimated to have reached \$500 million in the late 1970s,<sup>9</sup> roughly half the size of Nicaragua's entire debt and 33 percent of its GDP in 1979.

Somoza's agro-export model began to crumble in the second half of the 1970s, as demand for Nicaraguan exports fell and civil infighting increased.<sup>10</sup> In the later 1970s, there was significant capital flight from the country (Ministerio de Cooperación Externa 1991).

The 45-year Somoza family dynasty was toppled on 17 July 1979 by the Sandinistas and replaced by the National Junta of Reconstruction controlled by the leaders of the FSLN. On assuming power, the Sandinistas inherited a \$1.6 billion debt accumulated by the Somoza regime. About half the debt was owed to private creditors, and one-quarter each to bilateral and multilateral donors. Nearly 3 years of brutal civil war, coupled with falling commodity prices on international markets and a political regime unconcerned with its citizens' welfare, had left Nicaragua's economy in ruins. In the last 3 years of the Somoza regime, GDP per capita had fallen from \$1,069 to \$680 (1995 dollars). In 1979, Nicaragua's debt-GDP ratio was 80 percent.

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9. See <http://members.tripod.com/PROJ3CT/somoza.htm>.

10. Francisco Laínez, founder of Nicaragua's Central Bank, and known as Nicaragua's economic czar at the end of the Somoza regime, described the use of aid flows during this period as follows: "After the earthquake [that hit Managua in 1972], a lot of money flowed into the country for reconstruction. Until 1976 or 1977, the aid was flowing and there were business deals and reconstruction. When Somoza saw that this aid flow was dwindling down to the last piece of this cake, he said, 'This last piece is mine.' But the monied interests around him said, 'No'" (*Multinational Monitor*, September 1996, vol. 17, no. 9).

The foreign countries responded in 1979. Commitments from official creditors in 1979 jumped to \$226 million (up from \$64 million in 1978). A large part of this increase was in grants from bilateral donors, which rose from \$8.5 million in 1978 to \$63 million in 1979; 88 percent of the overall increase came from bilateral donors (Canada and Western Europe), and most of the rest from the Soviet Union. During the next decade, foreign countries continued to pour resources into Nicaragua. Disbursements averaged more than \$500 million annually, peaking at \$883 million in 1986. Between 1979 and 1990, the international community transferred nearly \$6 billion in loans and grants to Nicaragua. These figures are roughly consistent with the increase in the size of Nicaragua's external debt and its balance of payments deficit during this period.

The Sandinistas wasted no time in rescheduling the stock of outstanding debt inherited from the Somoza regime, to allow them space in which to institute their reconstruction and development programs. In December 1980, Nicaragua restructured \$582 million (70 percent) of its debt owed to private banks, and reached bilateral debt restructuring agreements with some donors (notably Spain and West Germany), but not with the United States. As the economic situation worsened, Nicaragua continued rounds of rescheduling with private banks, reaching tentative agreements in 1984 and 1985.

In 1985, Nicaragua reached a critical agreement with the Soviet Union and other socialist countries to suspend debt-service payments until 1987. Beginning in 1983, the Sandinista government adopted a policy that debt-service payments would not take precedence over domestic economic and social programs, and it went into arrears with a number of creditors. Bilateral loans were repaid as long as new loans were forthcoming; where they were not, Nicaragua suspended payment. In March 1985, Nicaragua became the first country ever to fall 6 months behind in repaying loans to the World Bank. At that point, Nicaragua's total debt to the World Bank was \$134 million.

The composition of flows to Nicaragua changed dramatically in the 1980s. The United States—because of its political opposition to the Sandinista government's relations with the Soviet Union and Cuba—began to cut off economic aid to Nicaragua in 1980. The United States also pressured the multilateral institutions to transfer fewer resources to Nicaragua.<sup>11</sup> The

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11. Loans that received positive technical evaluations in both the World Bank and the Inter-American Development Bank (IDB) were opposed and eventually terminated by the United States. There are numerous examples of loans between 1982 and 1985 in the IDB that were supported by all members except the United States. An IDB loan in August 1983 (\$628,000 for a furniture makers' cooperative in Managua) passed despite US opposition, but it was the last assistance to Nicaragua during the period. Multilateral sources less susceptible to US influence (UNICEF, United Nations Development Program, World Food Program) continued and expanded programs in Nicaragua during this period.



World Bank and Inter-American Development Bank completely ceased lending to Nicaragua in 1984, and in 1985 the United States instituted a trade embargo against Nicaragua. US official action, as well as the political instability instigated by US-financed counterrevolutionary forces (Contras), made private financing unavailable to Nicaragua.

The financing gap left by the withdrawals of the United States and of multilateral and private creditors was filled by bilateral contributions from socialist, West European, and other Latin American countries.<sup>12</sup> This shift implied considerably higher transportation costs for Nicaragua, but also reduced the prices for many products, especially agricultural implements. Credits from the Soviet Union and Eastern Europe were generally provided at less concessional terms (4-5 percent interest rates) with shorter grace periods than those from the multilaterals and Western Europe, but the socialist countries were more willing to renegotiate and postpone payments.

As the US-supported Contras intensified their armed opposition to the Sandinista regime, military spending steadily increased in the 1980s. Data on military spending are limited and controversial, because of the intensely political nature of the Contra-Sandinista struggle. According to the World Bank, Nicaragua was spending 17.5 percent of GDP on its military in 1985, in comparison with the Latin American average of 1.7 percent (table C.5). During the most hostile period, military spending is estimated to have reached 40-50 percent. In 1986, 70 percent of the value of Nicaraguan imports was for military arms. Using these figures, total military spending during the Sandinista regime can be estimated at nearly \$5 billion, or 55 percent of Nicaragua's outstanding debt in 1989.<sup>13</sup>

## **Democracy Returns and Inherits Debt**

The democratically elected government that took over in 1990 inherited the \$9 billion debt that had accumulated during the previous 15 years. In this period, Nicaragua's debt had multiplied ninefold while GDP per capita fell from \$998 in 1975 to \$444 in 1991 (1995 dollars). Social indicators deteriorated during this period, and in 1990, Nicaragua had the highest level of infant mortality in the Western Hemisphere.

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12. Mexico and Venezuela provided grants and petroleum credits to Nicaragua from 1979 to 1982, but halted grants of oil in 1982-83 because of a lack of service payments by Nicaragua. This forced an additional reliance on the Soviet Union, which became the largest supplier of oil to Nicaragua, by 1986 providing 80 percent of the country's oil needs on highly concessional terms.

13. Various estimates suggest that between 20 and 35 percent (approximately \$3 billion) of the debt accumulated by Nicaragua and other countries in the developing world during this period is attributable to arms imports.

**Table C.5 Military and social spending by Nicaragua, 1979-90**

Item	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Military expenditure (percent of GDP)	3.1	4.4	5	6	10	11	17	18	40-50	30	n.a.	21
Public spending on education, total (percent of GNP, Unesco)	3	3.4	4.6	4.3	5.1	6.4	5.9	6.2	5.4	3.9	3.3	3.4
<b>Debt service paid</b> (percent of GNP)	4.0	4.4	8.0	7.4	3.5	2.4	2.3	1.3	1.1	0.8	1.1	6.5

n.a. = not available

Sources: Education and debt-service data are from World Bank, *Global Development Finance* CD-ROM, 2001; military expenditure data are from Swedish International Peace Research Institute Yearbook, various years.

The United States and the multilateral institutions responded swiftly to the change in government, and by 1991 they had resumed lending and were supporting a massive adjustment and reform package for the country. Foreign exchange and trade were liberalized, and inflation was attacked and brought under control by 1992.

With the domestic transition, the United States and other bilateral creditors began discussing debt relief with Nicaragua, but debt-service payments jumped as the new government began servicing its debt, including paying the arrears that had been unpaid or rescheduled since 1983.<sup>14</sup> The ratio of debt service to exports rose from 2.5 percent in 1990 to 24.5 percent in 1992, and it nearly doubled to 41.5 percent by 1995. Average annual debt service increased from \$63.7 million in the 1980s to \$208.2 million in the 1990s. An increasing share of international assistance was provided in grant form. Average annual grants increased from \$128 to \$454 million in the 1990s. New lending and grant-making in the 1990s to Nicaragua have been dominated by the multilateral institutions, and—coupled with simultaneous bilateral debt relief initiatives—have meant that multilaterals now have the largest share of Nicaragua’s debt.

## **Odious Nature of Nicaraguan Debt**

Despite some evidence that Somoza was using international assistance for development purposes, the debt incurred before 1979 under the Somoza regime has all the components of odiousness. Somoza was unrepresentative and unaccountable to the Nicaraguan populace, and he used the cover of international assistance to loot his country of hundreds of millions of dollars. His personal fortune and the record of land and other holdings seized by him and his cronies is evidence to this point.

The debt accumulated in the 1980s under the Sandinista regime looks odious on two counts. There was a high level of military spending although some might argue this was forced on the country by the US-financed Contras. Similarly, the data show massive capital flight, although they are particularly uncertain.

## **Pakistan**

Pakistan is a country with a large population of more than 140 million that was thrust into unwanted prominence on the world stage in September 2001 as a result of its proximity to Afghanistan. A small but passionately committed part of its population opposes the side its government

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14. In September 1991, the United States forgave 80 percent of the debt (\$259.5 million) owed to it by Nicaragua.

has taken in the war on terrorism, but the dangers for the cohesion of a state that was already riven by ethnic and religious differences have so far shown no sign of materializing. Indeed, it is conceivable that the cash infusion that results from the conflict will give Pakistan the chance to pull its economy out of the perpetual semi-crisis of the past decade (table C.6).

## Accumulation of Pakistani Debt

The country has not always been an economic cripple. Although it had virtually no industry when it was created out of the division of British India in 1947, by the early 1960s it was exporting more manufactures than such East Asian countries as Indonesia, Malaysia, the Philippines, and Thailand. Its agriculture flourished for several decades, based on a rapid expansion of irrigation and enthusiastic adoption of the techniques of the Green Revolution. GNP increased at more than 5 percent a year from the late 1950s to the late 1980s, by far the best performance of any South Asian country. Only social indicators spoiled the picture: literacy was still only 35 percent; infant mortality was still at 111 per thousand; the total fertility rate was 4.6; and above all there was a horrendous gender gap, with the proportion of girls in primary school, for example, as low as 32 percent.<sup>15</sup>

In the 1990s, growth slumped to little more than 4 percent a year, while the rest of South Asia saw an acceleration, so that Pakistan became the region's slowest-growing rather than fastest-growing economy. Pakistan was forever going to the IMF and signing programs that it failed to complete (a record that was finally broken in 2001).

What went wrong? First, the tragic aftermath of the wars with India was a long-term diversion of public expenditure from the social sectors to the military, a deflection that undermined the prospects for social advance and curtailed the human capital formation necessary for rapid growth.

Second, the government of Zulfikar Ali Bhutto, which took office in 1972, pursued a set of policies that in retrospect appear utterly perverse: widespread nationalization (one of the last countries to engage in this before privatization replaced it on the reform agenda), dissolution of the "elitist" civil service of Pakistan, and restoration of the power of large landlords. Third, the military dictatorship of Zia ul Haq, which seized power in 1977, failed to reverse the misguided economic policies of his predecessor while magnifying corruption and accentuating the emphasis on the military.

Fourth, the ethnic and religious fissures that had plagued Pakistan after its creation were aggravated by the 1980s war against the Soviet

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15. These are 1990 figures (World Bank, *World Development Indicators* CD-ROM, 2000).

**Table C.6 Resource flows and other indicators for Pakistan, 1970-99** (millions of constant 1995 dollars, annual averages)

Flow or indicator	1970-79	1980-84	1985-89	1990-94	1995-99	Total, 1980-99
	Debt outstanding	11,976	11,701	15,393	21,050	27,117
Public and publicly guaranteed	11,942	11,665	15,313	20,286	24,988	28,351
Nonguaranteed	34	36	80	764	2,129	2,208
Disbursements	1,847	1,873	1,764	2,991	3,375	68,486
PPG disbursements	1,632	1,417	1,581	2,483	2,510	56,271
Bilateral	1,173	648	616	811	954	26,874
Multilateral	275	356	767	1,317	1,162	20,759
Private	184	413	198	356	394	8,644
Debt service	626	963	1,389	2,177	2,653	42,178
PPG debt service	617	947	1,358	1,988	2,114	38,210
Debt transfers	1,220	910	375	814	722	26,308
Grants	275	572	681	620	320	13,723
Total net transfers	1,496	1,482	1,057	1,434	1,042	40,031
Debt to GNP	43	30	35	40	44	n.a.
Debt to exports	348	163	190	210	244	n.a.
Debt service to GNP	2	2	3	4	4	n.a.
Capital flight (percent of GDP)	0.3 (1976-79)	-0.3	2.3	0.2	-0.9 (1995-97)	n.a.
Military spending		2,216	3,125	3,452	3,499	
Arms imports			584	909	610	
Freedom House ranking	Partly free	Not free	Partly free	Partly free	Partly free	(Not free from 1999-)
Corruption ranking (0-6)	..	1	2	2	..	..

n.a. = not applicable

PPG = public or publicly guaranteed

Sources: World Bank *Global Development Finance CD-ROM, 2001*; Military expenditure data are from Swedish International Peace Research Institute Yearbook, various years.

occupation of neighboring Afghanistan. Fifth, the democratic governments that succeeded the military dictatorship of 1977-88 were dominated by an intense personal rivalry between Benazir Bhutto and Nawaz Sharif, both of whom were more intent on enlarging their family fortunes than serving the social good, and neither of whom was prepared to risk short-term political popularity for long-term national gain.

## **Odious Nature of Pakistani Debt**

One criterion for identifying debts as odious is if the government that contracts them is a dictatorship rather than one that commands the consent of the governed. Pakistan was ruled by a military dictator, Zia ul Haq, from 1977 to 1988. He sought to legitimize his hold on power through a referendum in 1984 and elections for the National and Provincial Assemblies in 1985, which gave him some modicum of democratic legitimacy, although that was quickly compromised by a constitutional amendment designed to concentrate power in his hands that was introduced by decree. His hold on power was ended only when he and a number of military colleagues were killed in an air crash believed to have been caused by espionage in 1988.

Democracy was restored in the following months. There then followed a decade of alternating power between Benazir Bhutto and Nawaz Sharif, each of whom won two elections and served terms of something more than 2 years each time, before being dismissed by the president (and in the last case replaced by a military coup) on the grounds of chronic corruption. In 1999, Pakistan reverted to a military dictatorship in the person of General, now President, Pervez Musharraf (who so far has a reputation for benevolence and has promised to restore democracy in due course).

This history might make one uneasy about applying the criterion of democratic rule to judge whether debts should be judged as odious or legitimate. Would one rule that all debts incurred by Zia ul Haq were odious, or would those incurred after he acquired his veneer of democratic legality be deemed legitimate? Would the debts incurred under the highly corrupt but democratically elected governments of Bhutto and Sharif be deemed legitimate? Should Musharraf have been denied access to international loans, a decision that would inevitably have prompted a moratorium on debt service, meaning mainly servicing of loans contracted by the Bhutto and Sharif governments? Could this conceivably have made Pakistan better off, meaning that the country would have been rewarded for having installed a dictator? Or should his government be denied access to new loans if and when it reneges on its promise to restore democracy? What would an expectation that it might be denied access to new loans in the future do to its current ability to borrow, and thus maintain the

service of old loans? These are uncomfortable questions, to which there are no obvious answers.

A second criterion for debts to be judged odious might be that they were incurred to buy armaments. Pakistan has indeed been a heavy purchaser of armaments, as the data in table C.6 show. Were such debts automatically judged odious, the country would presumably have been unable to buy those arms, which its government (and probably most of its population) judged necessary to maintain a convincing defensive capability against India. Should the international community then decide on the legitimacy of a country's decisions to purchase arms? Could the international community then stand aside if a country whose desire to buy arms for self-defense was denied were subsequently to be attacked? This criterion also appears fraught with problems when its implications are examined carefully.

A third criterion for odious debts might be if they were used to finance capital flight. The statistics reveal net capital flight from Pakistan during the period 1976-97, but the total amount is rather insignificant. There appears to have been more capital flight in the late 1980s, but little or no flight in the 1990s, presumably because expatriate Pakistanis sent back more money than was spirited out by resident Pakistanis. That does not mean that capital flight has not been a problem in Pakistan; both the Bhutto and Sharif families are known to have accumulated substantial foreign wealth. In macroeconomic terms, however, this is not a big factor. Could one sensibly declare all the country's foreign debts to be odious because a small part of them had been used to build up the foreign wealth of its rulers?

The fourth and final criterion for debt to be considered odious is that it be used to finance white elephants. Pakistan has undoubtedly had its share of white elephants. Indeed, a recent report to the Pakistani government (Debt Reduction and Management Committee 2001, 21) identified three important programs as falling into this category: a program for building motorways (expressways to Americans), investment in Saindak copper, and the Tamir-i-Watan program (which gave public money to every member of Parliament to spend on good works in his constituency; i.e., enabled him to buy votes). The total expenditure on these three programs in the 1990s amounted to about 172 billion rupees, 28 percent of 1995 GDP, suggesting that wasteful investments may have approached 3 percent of GDP in a typical year. This is quite substantial, although it does not explain the bulk of the capital inflows or foreign debt. In sum, all the characteristics that make people judge debt to be odious were indeed present to some degree in Pakistan.

## Uganda

Uganda has been the most successful country in the HIPC context, reaching its completion point under both the original and enhanced initiatives

for a total of \$2 billion in debt-stock relief (table C.7). In the 1990s, Uganda was a model reformer, with considerable commitment to an economic reform program that produced impressive growth. Uganda has also undertaken a process of national consultations and dialogue resulting in a homegrown national poverty reduction strategy that has provided the framework for all other HIPC's struggling to implement the PRSP process.

## **Accumulation of Ugandan Debt**

Uganda's success in the 1990s came in the context of a highly unsustainable debt situation. Its debt as a percentage of exports peaked in 1992 at 1,223 percent. Since then, this ratio has been declining due to strong export growth. Uganda amassed its \$3 billion outstanding debt during the preceding two decades, although mainly in the 1980s. Under the 1971-79 regime of Idi Amin, external assistance from the international community was limited. Although initially supportive of the transfer of power from Milton Obote to Amin in 1971, bilateral and multilateral donors became worried by Amin's tactics and military spending, and most suspended support in 1972. Nonetheless, the Amin administration did receive some bilateral support from Russia and Arab states related to Cold War alignments. Uganda's outstanding debt was slightly more than \$500 million in 1971, and it was about \$800 million when Amin fled the country in 1979.

The expulsion of Amin in 1979 and the elections in 1980 (the first in 18 years) were taken as positive signals by the international community. Beginning in 1980, Uganda received massive amounts of external assistance. Unlike most other African countries, most of this assistance to Uganda came from multilateral donors, primarily the IMF and World Bank. The international community supported the Obote regime between 1981 and 1984, and it endorsed the policies for inflation control and fiscal austerity designed jointly with the IMF.

The economy that had been devastated by Amin in the 1970s made a short comeback in the early 1980s. The IMF agreed to three standby arrangements and disbursed about \$600 million in balance of payments support to Uganda between 1980 and 1984. The World Bank reengaged with Uganda as well, disbursing \$200 million in IDA financing during this period. Overall, creditors disbursed \$2 billion between 1980 and 1986, and Uganda's outstanding debt more than doubled from \$600 million to \$1.4 billion (282 percent of exports).

During this period, Uganda fell into an increasingly violent civil conflict, and the government spent upward of 30 percent of revenues on the military. The Obote government's 4-year military effort resulted in greater loss of life than Amin's 8-year rule (an estimated 500,000 were killed during the period 1980-85). Yet unlike Amin, Obote was very sensitive about his international image, and realized the importance of securing



**Table C.7 Resource flows and other indicators for Uganda, 1970-99** (millions of constant 1995 dollars, annual averages)

Flow or indicator	1970-79	1980-84	1985-89	1990-94	1995-99	Total, 1980-99
Debt outstanding	523	717	1,657	2,611	3,301	3,544
Disbursements	91	127	297	299	218	4,702
Bilateral	32	22	78	61	17	893
Multilateral	15	61	147	223	200	3,156
Private	43	45	72	14	0	656
Debt service	31	58	90	111	102	1,806
Debt transfers	60	69	207	188	115	2,895
Grants	54	129	211	432	491	6,316
Total net transfers	113	198	418	620	606	9,211
Interest arrears	5	14	39	89	56	64
Principal arrears	19	53	94	252	214	226
Debt to GNP	0	36	28	73	54	
Debt to exports	69	160	398	1,028	448	
Debt service to GNP	0	3	2	3	2	
Capital flight (percentage of GDP)		2.7	2.2	-0.2	-2.1 (1995-98)	
Freedom House ranking	Not free	Partly free	Partly free	Not free	Partly free	
Corruption ranking (0-6)	..	1	3	3	..	

Source: World Bank *Global Development Finance* CD-ROM, 2001.

external assistance for both economic recovery and continued financing of his war effort. He followed IMF conditionalities even when they were politically costly (e.g., devaluing the currency and postponing plans to reinstitute one-party rule).

The intense civil conflict showed signs of resolution in 1986, after Obote fled the country. In response, the World Bank and IMF stepped up their policy-based lending to Uganda. Bilateral donors followed suit. Total net transfers jumped to about \$500 million in 1987 and have stayed there consistently to the present. Uganda's debt ballooned in this period, doubling again by 1993. About half of assistance to Uganda in the 1980s was loans associated with structural adjustment programs, and a large share of bilateral loans and grants was for technical assistance. The economic recovery program instituted in 1987 was slow to show results but eventually succeeded, bringing growth in exports and GDP back to Uganda. Since the beginning of the 1990s, aid coordination has improved in Uganda, the government has shown strong commitment to the reform program, and Uganda has used technical assistance uncharacteristically well.<sup>16</sup>

## **Odious Nature of Uganda's Debt**

External assistance to Uganda from 1986 to the present has been one of the central factors allowing Uganda's economic recovery. Critics may take issue with the amounts disbursed, but the support that Uganda received from multilateral and bilateral sources seems to have been used for development purposes, and relatively effectively, during this period.

Before 1986, however, it is reasonable to assume that little of the money given to Uganda was used effectively for development purposes. This includes the large share of lending, mostly by the multilaterals, to the second Obote regime between 1980 and 1985. The Obote regime was unaccountable to its citizens and singularly focused on using military means to quiet its critics and adversaries. Capital flight during this period was 2.7 percent of GDP. The high levels of military spending and growing intensity of the internal civil conflict may well have signaled to the creditor community that this was an environment where resources were not going to be used well. And in 1985, when Obote fled the country, he allegedly took much of the nation's wealth with him. Uganda's \$1.4 billion outstanding debt in 1986 represented almost half of its total HIPC-eligible debt.

Loans given to Uganda under Amin fall even more clearly into the odious category. After all, his regime seems to fit all the criteria: not accountable to the public, expropriating money for its own purposes and checking accounts, and using money to finance non-development-related

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16. See Holmgren, Dollar, and Shanta (1999).

expenditure. But as has been explained, lending to Uganda during this period was limited, and in 1980 enough of the Amin debts were forgiven to allow Uganda's debt to fall back to its pre-1971 levels.

The case of Uganda in 1980 presents a quandary for the practical application of an odious debt doctrine. Perhaps forgiving Uganda's entire \$800 million debt in 1980 would have been consistent with the decision by the IMF and the international community as a whole to reengage in Uganda. With the benefit of hindsight, this would only have freed up even more resources for the high military spending and non-development-focused Obote regime in the early 1980s, a regime whose debts we might now declare odious as well. The massive infusion of international assistance, mainly multilateral, beginning in 1986 could have been accompanied by some debt reduction based on an odious debt doctrine, but that would have been a gamble considering the fragile political situation and lingering internal conflict.