



Debt-for-Development Exchanges

History and New Applications

Ross P. Buckley

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HISTORY AND NEW APPLICATIONS

Written and edited by

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To family and friends. When all is said and done, all we have that matters are family and friends, and along the way all that is best is family and friends. Yet somehow it can be easy to forget to be filled with gratitude for that which gives our lives its greatest richness and meaning.

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And the final thank you, and it is a big one, is to the indefatigable Lara K. Hall, who did much of the research for my early chapters and then managed the editing and compilation of the entire volume. Her contribution was invaluable. Hers is a name to watch out for in the coming years.

Ross P. Buckley
Sydney, October 2010

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Introduction

A Productive Partnership between Civil Society and the Academy

Ross P. Buckley

There is a considerable history behind this volume. I first researched and wrote about debt exchanges some 12 years ago.¹ Five years later Bill Walker, who then chaired Jubilee Australia's Policy Working Group, approached me with the idea of drafting a submission to the Australian government on why it should consider undertaking such exchanges. Steven Freeland and I wrote this submission to Treasury in 2003. In 2005 Bill Walker and I together wrote Jubilee Australia's official submission to AusAid for its white paper consultation. Later in that year I spoke at an AusAid event in Sydney.

In late 2006 I spoke at a Make Poverty History conference in Melbourne on debt-for-development exchanges, and that campaign's media liaison staff worked to ensure that an opinion piece I'd written on the idea appeared in the *Australian Financial Review* on the day of the conference.² As a result of reading the opinion piece, Bob Sercombe, opposition spokesman on overseas development assistance, came along to listen and asked questions in private afterwards. At about the same time, World Vision Australia (where Bill Walker has his day job) sponsored a research assistant to work on more formal scholarly research on the topic, and the outcome of that work appeared in 2007.³

In April 2007 Adele Webb and Luke Fletcher of Jubilee Australia organised an event titled "Is Australia a Responsible Lender?" as part of the 'fringe festival' for the national conference of the Australian Labor Party (ALP, which was then in opposition) at which the ALP Shadow Parliamentary Secretary for Overseas Development Assistance, Bob McMullan, and I spoke.

¹ Ross Buckley, "Debt Exchanges Revisited: Lessons from Latin America for Eastern Europe", *Northwestern Journal of International Law and Business* 18 (1998): 655–684.

² Ross Buckley, "Transparency Helps Narrow the Gap", *Australian Financial Review*, November 16, 2006, 63.

³ Ross Buckley and A. Small, "Leveraging Australia's Debt Relief to the Philippines Using Debt-for- Investment Projects", *Macquarie Law Journal* 7 (2007): 107–124.

Debt-for-development exchanges were discussed at this event. Shortly thereafter, these years of advocacy efforts culminated in the Labor Party adopting a debt-for-health exchange with Indonesia as part of its policy platform. This became government policy with Labor's electoral victory in November 2007.

In this way was policy shaped. Adele and Luke's advocacy efforts at Jubilee Australia led the way, ably supported by Bill Walker at World Vision Australia and by the Make Poverty History campaign, a coalition involving the above nongovernmental organisations plus TEAR, Oxfam and many others.

The Debt2Health exchange was implemented in mid-2010. Under the exchange, Australia has cancelled A\$75 million of its loans to Indonesia in return for Indonesia paying one-half of that sum to the Global Fund to be used in the fight against tuberculosis in Indonesia. May this be but the first of many productive debt-for-development exchanges between the two countries. Adele Webb and Luke Fletcher tell the complete story of how the Debt2Health exchange that Australia and Indonesia entered into in 2010 came about.

In 2007 I applied for, and was lucky enough to receive, a major three-year Australian Research Council grant to explore debt-for-development exchanges and their potential to contribute to the security of our region. This volume is one significant outcome of the research undertaken under that grant.

I tell this story in part to show the genesis of this volume and its long historical roots. But more significantly I tell the story to show the potential of partnerships between civil society organisations and university academics. It is almost inconceivable that my research would ever have influenced federal government policy without the input of two civil society organisations, Jubilee Australia and World Vision Australia. Likewise, however, the representations to government of those organisations may have been less credible without the support of my research. Civil society, around the world, may find in universities a well of resources that are highly valuable in their advocacy activities and yet have been tapped but lightly. This is particularly so if civil society understands that academic talent can be used in diverse ways: to generate research to underpin arguments and, depending upon the academics' personality and inclinations, to advocate for those arguments. If academics are invited to work on issues in ways that will generate publications, they are far more likely to be able to say yes than if they are asked merely to write reports or submissions that will never be formally published. People often go into university teaching wanting to make a difference in the world. A partnership with civil society can enable academics to bring about that difference.

Anyway, enough of this history; let's move on to the history of debt exchanges. These are the subject of the nine chapters in the first two parts of this book. These chapters commence by chronicling the emergence of

debt-for-development exchanges from their forebears, debt-equity exchanges, and analyse why debt for development suffers from very few of the problems that plagued debt-equity. The different types of debt-for-development exchange by development project are then considered. So, for instance, one chapter considers debt-for-nature exchanges and another debt-for-education exchanges, and so on. Part II of the book proceeds to analyse the practices and trends in exchanges by donor countries, seeking to demonstrate the lessons learned in how each donor country has used, or in the case of France abused, this technique.

Part III introduces critical and analytical perspectives on exchanges. The chapters in Parts IV and V were presented initially at a workshop funded by the Australian Research Council and held at the University of New South Wales in March 2010. This one-day workshop allowed these authors and other interested participants to come together to learn of each other's work and thoughts and to explore new uses for this well-established financial technique.

In the initial chapter in Part III, Julia Roy makes the case that debt audits to determine the legitimacy of the debt are prerequisites of credible exchanges. Jürgen Kaiser then grapples with the sad reality that, in the absence of other mechanisms that enable the cancellation of illegitimate or odious debt, a nation may be better served by exchanging debt, notwithstanding the fact that in an ideal world it would be set aside as illegitimate or odious, because we don't live in that world and the nation will otherwise simply have to keep servicing the debt.

Gillian Moon then explores the human rights dimensions of exchanges, and M. D. Shamsuddoha considers Bangladesh's experience with debt and development and the contributions exchanges could make to that country.

In the final chapter in Part III, Joffre Balce explores some of the interesting applications of the debt-exchange technique in the Philippines, as well as some potentially innovative applications. Joffre's chapter ends on a provocative note, for he questions whether, while productive in a micro sense, exchanges are destructive in a macro sense, as they perpetuate the dependency of the financial systems of developing countries upon external finance. Joffre's question is significant, for it challenges directly a fundamental working assumption of the entire international financial system, namely that poor nations have inadequate domestic financial resources and are best served by borrowing from abroad. Certainly in East Asia, from where Joffre hails, this appears to be a deeply questionable assumption, and Joffre explores the idea of using exchanges to make the most of domestic financial resources within, and being remitted to, the Philippines.

The fourth and final part of the book is in many ways the most important, as it considers new and innovative uses for the funds generated by exchanges.

It begins with a chapter about one of the most exciting development projects I have encountered, projects to teach African farmers how to restore tree cover to their farms by caring for the stumps of indigenous trees, which in the past have been treated as impediments to farming. Most antidesertification efforts in Africa have focussed upon the planting of exotic varieties of trees. Tony Rinaudo in his excellent work with World Vision in a number of sub-Saharan countries has proved that the best trees with which to combat soil and wind erosion and to turn back the encroachment of the world's largest desert are the trees that are already there, in the ground, as stumps. These projects are perfectly adapted to funding by debt-for-development exchanges. Their costs are modest. The benefits are very substantial, and the projects in time become self-sustaining as farmers teach other farmers how to improve yields and generate other sources of income by nurturing stumps into coppiced trees.

The next brief chapter in Part IV considers the massive returns available from restoring mangrove forests, both as breeding grounds for fish and seafood catches, and as tsunami protection zones.

This is followed by John Langmore's analysis of how debt exchanges could be used to fund social protection programs (basic welfare support). John's chapter contains important and previously unpublished calculations by Professor Anthony Clunies-Ross of the amount it would actually cost the world to lift all who live in extreme poverty around the world out of it – an amount that is almost certainly beyond the capacity of debt exchanges to fund but is nonetheless surprisingly affordable for rich countries. And, of course, the fact that debt exchanges cannot fund the world's entire social protection needs doesn't mean exchanges cannot begin to do so for some specific countries that currently lack such programs. As I write this introduction, I have been sick for a month with whooping cough, a very nasty affliction in middle age. The incredible exhaustion this disease has caused me has brought home the hard truth of what it must be like for poor people in poor countries without social protection. It has been extremely sobering for me to realise that, as I have struggled to make lunches and help my children get off to school (before collapsing on the bed in exhaustion), people in the world as sick or sicker than I have had to work all day in physically demanding roles because for them to fail to work is to fail to eat. Social protection schemes are part of the answer to this inhumanity.

The two succeeding chapters, the first by Philip Ireland, the second by Alicia C. Qian and Tanvir A. Uddin, explore ways that debt exchanges could fund the general climate change adaptation efforts our world is going to need

in abundance, and one specific climate change adaptation measure: climate change schools to teach Bangladeshi farmers how to respond to a changing climate.

The next chapter considers briefly the idea of debt-for-peace exchanges and explores the contribution that funding from a debt exchange could make in supporting community-based peace initiatives in Mindanao in the Philippines, the potential of US legislative schemes to fund debt-for-nuclear-nonproliferation exchanges and, finally, the security threats posed by environmental degradation and climate change.

The penultimate chapter in the volume is by Emmanuel T. Laryea and explores how information and communication technology systems funded by debt-for-development exchanges could be used to promote good governance and in turn development in developing countries.

The final chapter is written, most fittingly, by the man who first had the idea of Australia entering into debt-for-development exchanges, Bill Walker. Bill explores the potential of these exchanges to promote citizen action and voice in developing countries. Bill's contribution answers in part the question Joffre Balce raises at the end of Part III. The most sustainable long-term development path of all is one that empowers developing countries to develop and rely upon their own human and financial capital. Debt exchanges could play a role in this regard, but to realise this role will require a fundamental shift in thinking: a new paradigm. But I am getting ahead of myself, to material best considered in the book's conclusion.

