**Letter to Andrew Gwynne MP, sponsor of the Private Member's Bill:
Debt Relief (Developing Countries)**

Andrew Gwynne, MP
House of Commons
London
SW1A 0AA

February 25, 2010

Dear Mr. Gwynne,

We write to you as a group of experts dedicated to alleviating poverty. We share your noble goal of freeing millions of impoverished people from the weight of stifling debt and improving their living standards. You deserve great credit for seeking solutions to these hugely important issues.

But we believe that increasing prosperity, reducing debt, and advancing opportunity is best achieved through lowering barriers to enterprise, trade and investment, and encouraging responsible and accountable government. The key to economic growth lies not in greater levels of foreign assistance or state spending, but through removing barriers to economic freedom.

We have very strong reservations regarding your Debt Relief (Developing Countries) Bill, due for its second reading in the House of Commons this Friday, February 26, which we believe will actually end up hurting the very people you are trying so hard to help. As several of us wrote in our submission as part of Her Majesty's Treasury Consultation last year, the proposed legislation is unlikely to accomplish the British Government's admirable goal of improving the well-being of people in low income countries. In fact it could well end up having the opposite effect, by creating an even greater dependency culture.

Both academic research and our own extensive experience working in Africa shows that over-reaching debt relief is one of the least effective ways to promote changes in government policies and create opportunities for growth. It is frequently abused by African governments to consolidate their own power, rather than empower their people. The biggest problem of indebted countries is not the level of government debt; it is the slow pace of their development, which is directly linked to a lack of viable legal institutions, rampant corruption, widespread violations of human rights, barriers to trade and arbitrary and capricious interventions in markets.

We believe that more effective legislation should have a strong emphasis on good governance. Unfortunately, we think your bill avoids clear incentives for governments to change their behaviour, including advancing the rule of law, respecting civil liberties, and stamping out corruption. Taxpayers expect accountability when they support development programmes; your legislation does not appear to take these factors into account.

Further, your Bill, by reducing debts to creditors, purports to free up funds for Heavily Indebted Poor Countries to promote economic development. There is however no guarantee that such funds will actually be used for this purpose. In fact, the staggering levels of fraud, economic mismanagement and corruption that exist in most of the 40 countries eligible for relief under your Bill, lead one to the opposite conclusion. All of these countries score at the very bottom of Transparency International's Corruption Perception Index, and the majority of the countries listed in your Bill also have poor human rights records. According to the widely respected Freedom House rankings, no less than 35 of the 40 countries are designated in 2009 as "Partly Free" or "Not Free". Just five can be described as "Free".

The Debt Relief Bill will not only hand more financial power to deeply flawed regimes, but will also act as a major disincentive for British lenders and investors to operate in developing nations. The Bill will inevitably increase interest rates for all developing countries wishing to access capital markets. Nations such as Ghana, that have finally been able to bring a bond to market in the UK, will see its risk premium unjustifiably increased by this one-size-fits-all legislation.

Secondary markets, vital to international lending and continued access to capital in all countries, will be significantly weakened by the proposed legislation. The new law will be applied retroactively, and represents a dangerous ex post facto interference in private contracts. In effect, the Bill imposes new conditions on existing contracts. By changing the condition of contracts after the fact, it makes such contracts barely worth the paper they are printed on.

Financial investors will view this legislation as simply the tip of the iceberg, and the fear of future similar bills calling for further debt forgiveness will have a chilling effect on long-term lending. The ultimate victims are the entrepreneurs in developing countries, who will be starved of cash to start up businesses and employ workers. British Banks and investment funds, which play an important role in economic regeneration in many parts of Africa, will be scared off the continent by what amounts to an international bailout of poorly performing governments

We urge British legislators to think again before backing this legislation. While the Bill has been crafted with the best of intentions, its impact on the developing world will be overwhelmingly negative. This legislation sends completely the wrong signal to leaders of poor countries, who need to focus their efforts on good governance, economic liberalization, and advancing the rule of law. These are the foundations of a strong and prosperous future for impoverished nations in Africa, South America and Asia, whose people are looking not for handouts, but a hand up.

Yours sincerely,

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Franklin Cudjoe, IMANI Center for Policy and Education (Ghana)
Richard Tren, Africa Fighting Malaria (South Africa)
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