

Illegitimate Debt!

**A facilitators Resource
For Community
Education**



Welcome to our Illegitimate Debt Resource!

Seeing the Big Picture...

The theme of Debt and Development Coalition Ireland's work for 2008-2011 is 'Mobilising Against Unjust South-North Resource Flows'. This means that we want to challenge unjust transfers of wealth from the South to the North.

Unjust transfers of wealth from the South to the North happen in many different ways, for example, through unfair debt repayments, corporations not paying enough taxes on the profits they make in Southern countries, or through damaging economic policies being promoted by rich governments and institutions in Southern countries.

This resource is the first issue of a series of educational resources that Debt and Development Coalition Ireland will produce on this theme. We see debt repayments as one aspect of wealth transfers that are denying badly needed resources to countries of the Global South. This resource sets out a series of simple activities that aim to support development education in this area.

We hope that you will enjoy using the resource. Please do give us feedback on your experience of using it.

In solidarity

Nessa Ní Chasaide
Co-ordinator

This resource was written and developed by Maria Collision and Nessa Ní Chasaide.

The 'Debt Diamond Game' has been adjusted from a game originally published by Just Business/NEAD, revised by Jubilee Scotland and Jubilee Debt Campaign with further revisions by Debt and Development Coalition Ireland.

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A note on Language

Throughout the document we use the terms 'North/South', or 'Global North /Global South' rather than 'First World/Third World' or 'Developed/Developing' countries. When we write about countries of the 'North' we are broadly describing countries in the continents of Europe, North America and Australia and when we write about countries of the 'South' we are broadly referring to countries in the continents of Africa, Asia and Latin America. None of these terms fully describe the diversity within our global society. For example, the terms North and South minimise inequalities within Northern and Southern societies. We use them as a short hand in a way that seeks not to imply superiority or inferiority between people.

The Debt Diamond Game**Aim**

An activity to assist discussion on where responsibilities might lie in tackling the debt crisis.

Time Needed:

1 hour

Resources Needed:

Flipchart and markers, 1 set of cut outs of the statements below for each group, photocopies of the discussion notes for each participant.

How to Play**● Step 1**

Start by encouraging the group to discuss debt on a personal level. Ask them: Have you ever been in debt or has anyone been in debt to you? How does it feel? Why did you take the loan? What would happen if you couldn't repay or be paid the debt?

Separate the group into small groups of up to 4 people each. Give each group 1 set of cards. Ask them to examine the statements on the cards together. Ask them to identify which ones they agree with or disagree with.

Ask them to arrange the cards in a diamond, with the one they most strongly agree with at the top, and the two they feel next strongly about on the next line, and continue until the statement they most disagree with is at the bottom. Show them the 'debt diamond' graphic as a guide.

It is important that all the people in the group have a say about where the cards go. Where there is disagreement, this should be discussed in the group.

● Step 2

When everyone is finished arranging their cards, they should present their diamond to the whole group, explaining why they ordered their cards in this particular format.

● Step 3

Give the discussion notes to each participant. These notes could be used to prompt discussion between the groups about their different card layouts. If two people have different points of view, ask the wider group who they find most convincing and why? If they had more time would they revise the card layout? Why?



'The Debt Diamond'

**Agree
most strongly**

**Don't
agree or
disagree**

**Disagree most
strongly**



'The Debt Diamond' Game



It is always morally wrong not to repay a debt

The world's poorest countries should pay off their debts regardless of the consequences for their peoples

Debt is the result of mismanagement and corruption, and those in charge shouldn't be allowed to get away with it.

Today's generations of poor people in poor countries should not be held responsible for the mistakes of those who went before.

Rich countries should be able to give loans to maximise the profits of their own corporations, without having to consider all possible long-term effects.

Poor country debts are particularly harmful to women.

Debt is a cause of environmental damage

The debt crisis is a major cause of war and terrorism

We can't get rid of poverty without debt cancellation

If poor countries adopt the economic policies of international experts (such as the International Monetary Fund), their problems will be solved.

Debt Diamond Discussion Notes

Statement

It is always morally wrong not to repay a debt.

Background

Individuals and companies default on debts in industrialised countries all the time – we call it bankruptcy. Many national laws allow companies to declare themselves bankrupt and have the slate wiped clean and the individuals involved can start again. Countries are not legally allowed to go bankrupt. However, there have been occasions where countries have not repaid their debts or have threatened not to repay them.

Statement

Debt is the result of mismanagement and corruption, and those in charge shouldn't be allowed to get away with it.

Background

There is no doubt that some regimes in some countries have been corrupt, but many issues arise here. Is it fair to punish all for the crimes of the few? Many countries had honest governments. As well as the corrupt, there are also the corrupters who paid the bribes and the Western banks who knowingly accept the corruptly gained money. Are these people not equally guilty? It costs money and time to build up institutions that prevent corruption. In the past, Ireland has had corrupt leaders. Does that mean all Irish people are corrupt? Should poor people today be made to suffer from past corrupt leaders?

Statement

Rich countries should be able to give loans to maximise the profits of their own corporations, without having to consider all possible long-term effects.

Background

Rich countries have often made a lot of profit from the loans they gave to Southern countries. Some loans won them political influence or lucrative contracts. Some of these companies worked on projects at a very high price, and often with poor results.

Statement

Debt is a major cause of environmental damage.

Background

Debt must be paid in foreign currency, usually in dollars. Countries often have to exploit their natural resources, such as forests, and engage in intense cash crop production to get this currency. Often transnational corporations are given very favourable contracts to extract natural resources. Having high debt means high interest rates within a country, which makes it hard to purchase new machinery and investigate sustainable work methods, all of which can further needlessly damage the environment.

Statement

We can't get rid of poverty without debt cancellation.

Background

The debt repayments that leave poor countries is higher than the aid that goes in. This means that because of debt, poor countries suffer a net *loss*, making them even poorer. Poor countries need a net gain to sustain day-to-day living, let alone invest in the infrastructure and services that help pull a country out of poverty. For every US\$1 southern countries receive in aid, US\$5 is paid in debt repayments. US\$100 million per day is being paid in debt repayments by southern countries.

Debt Diamond Discussion Notes – continued

Statement

The world's poorest countries should pay off their debt regardless of the consequences for their people.

Background

The consequences of doing this are worth considering. By 2007, Ecuador was paying 47% of its government's revenue on servicing debt, 12% on education and 7% on healthcare. Poverty has increased from 55% to 60%, from 1995 to 2003.

Imagine if a parent became heavily indebted and had to choose between feeding and educating their children and paying the debt. What would you advise them to do?

Statement

Today's generations of poor people in poor countries should not be held responsible for the mistakes of those who went before.

Background

Sometimes corrupt dictators have fled or been deposed, but it is the present governments, and indeed the poorest people who are left to pick up the tab. Arguably, impoverished countries are in this situation because of the ravages of the slave trade and colonial rule.

Statement

Poor countries' debts are particularly harmful to women.

Background

Of the 1 billion people living on less than \$1 per day, 70% are women. Women are often most directly affected by cut backs in social spending. Where there is no local water supply, it is commonly women who have to fetch and carry water supplies. Women need access to healthcare during pregnancy and birth, and customarily the burden of sick family members falls on women. When resources are tight, boys are often prioritised when it comes to education.

Statement

The debt crisis is a major cause of war and terrorism.

Background

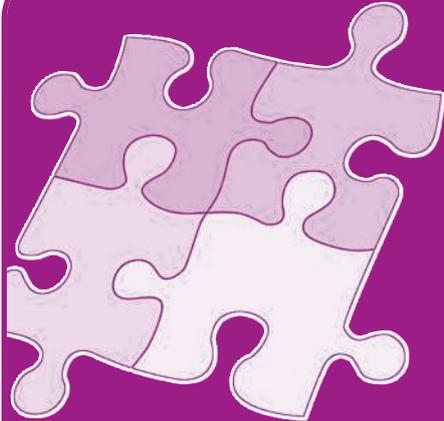
As debts are paid with a country's badly needed income protest and even violence may result. The debt crisis highlights an unequal international structure. If indebted countries are refused access to democratic means to solve their problems, citizens may feel the need to resort to violence to resolve their problems.

Statement

If poor countries adopt the economic policies of international experts (such as the International Monetary Fund), their problems will be solved.

Background

IMF involvement with Mexico in the mid 1980's and again in the mid 1990's led to worsening economic conditions and vast social inequality. Despite intense IMF involvement in Africa, the continent is poorer today than 30 years ago. Sound economic advice needs to be driven by the country in question and grounded in local understanding. Decisions on how to run an economy is the responsibility of the elected government and not external, unelected powerful institutions.

**Aim**

To inform the participants about the current situation with debt and to assist discussion on it.

Time Needed

1 hour

Resources Needed

Flipchart and markers, photocopies of the 4 sections of the story and the follow up questions.

How to Play

- Divide the group into 4 smaller groups.

Give each member of Group 1 a photocopy of: Part 1: 'The history of the debt crisis'.

Give each member of Group 2 a photocopy of: Part 2: 'The current situation with debt'.

Give each member of Group 3 a photocopy of: Part 3 'The current situation with debt'.

Give each member of Group 4 a photocopy of: Part 4 'The story of illegitimate debt'.

Ask each group to read their part of the story and to then respond to the questions together at the end (the questions are the same for every group).

- Ask the groups to choose a spokesperson to feedback to the wider group. Once each group is ready, ask each spokesperson to feedback on question 1, then on question 2 and so on. The facilitator should write the responses to question 1 on a flipchart, then the responses to questions 2 on a separate flipchart etc.
- Once this has been done the facilitator should review the flipcharts with the group and discuss them. Ask the group whether they now have a clearer understanding of the story of debt. Particular attention should be paid to discussing the information gaps identified for further discussion within the group and an agreement made on how to pursue further learning at a later stage on the information gaps.

'The groups could contact Debt and Development Coalition Ireland (www.debtireland.org) or Irish Aid (www.irishaid.gov.ie) for assistance in responding to knowledge gaps.'

Part 1 of the Story: The History of the Debt Crisis

'There's a Hole in the Bucket...'

The world's poorest countries pay over US\$ 100 million each day to rich countries and lending institutions. This is money that is needed to assure the basic human rights of the people in those countries in areas such as the right to access health care and education. Poor countries pay more to rich countries and finance institutions through debt repayments than they receive from them in aid each year. This means that there is a big 'hole in the bucket' of resources that is given to countries of the Global South.



'For every US\$1 given in aid to Southern countries US\$ 5 is repaid in debt'

How Did Debt Become Such a Big Problem For Countries of the Global South?

Much of the existing debt being repaid by countries in the Global South is left over from loans given during the 1970s. Rising oil prices resulted in large sums of money accumulating in rich country banks. To earn profits from this money, rich governments and banks lent money recklessly to poor countries. Many loans were given by rich countries to secure political loyalty from various countries.

But there was trouble ahead. The oil crises in the 1970s and 1980s caused an increase in interest rates. Southern countries, that were struggling to cope with falling commodity prices, such as for coffee and bananas, coupled with losses of foreign currency, had to borrow more just to re-pay their debts. This led to a vicious cycle of increasing indebtedness.

Many justice campaigners point out that the way loans were given by rich governments and institutions to countries of the South was highly unregulated and has often benefited the lender more than the borrower. Some of these loans were politically motivated. For example, the USA, the World Bank and International Monetary Fund lent billions of dollars to Mobutu Sese Seko, the president of the country that used to be called Zaire (now the Democratic Republic of the Congo). There is evidence that they knew he was stealing the money for himself. Now the people of the Congo still owe over US\$ 9 billion to lenders.



Justice campaigners also argue that the debts of Southern countries have now been paid many times over due to the continuing re-scheduling of debt repayments. Now the repayments are denying poor people desperately needed resources. Justice campaigners also argue that until the debt problem is resolved, there cannot be equal relationships between North and South.

Ask yourself

- What are the key points of the story you read?
- Are there justice issues raised in the story?
- Does the story help you to understand how the debt problem might be tackled and the challenges involved? If so, in what way?
- Do you think there is important information, or other points of view, missing from the story? If so, in what way?

Part 2 of the Story: 'The Current Situation with Debt'

The Story of Debt Cancellation: The good, The Bad... and the Downright Ugly

The story of the struggle for debt cancellation is a story of many parts.

The Good Part.....

For decades, people in North and South countries have campaigned for the cancellation of the debts of poor countries. Remember the Jubilee 2000 and the 'Make Poverty History' campaigns? There have been important results from this people pressure. Powerful institutions, like the World Bank and International Monetary Fund (IMF), have been forced to cancel some debts. These victories have been used by campaigners to pressure for even more debt cancellation since then.

Results of Global Campaigning on Multi-Lateral Debts

- 1996 – The World Bank and IMF launched the Highly Indebted Poor Country (HIPC) Initiative.
- 1999 – The World Bank and IMF launched the Enhanced HIPC Initiative.
- 2005 – The G8 Launched the Multi-Lateral Debt Relief Initiative (MDRI).

These debt cancellation deals promised:

- **Debt cancellation worth up to US\$ 150 billion.**

After the 2005 debt deal, campaigners fought for more debt cancellation for Latin American countries as many Latin American countries had been left out of the deal. This resulted in the inter-American Bank cancelling some of the debts of 5 Latin American countries.

Debt cancellation has brought important benefits to vulnerable people

Since receiving debt cancellation in 2005:

- Malawi: has recruited 3,600 new teachers per year
- Uganda has 5 million more children in primary school
- Tanzania has 32,000 new classrooms
- Mozambique has introduced free childhood immunisation

Ask yourself

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- Do you think there is important information, or other points of view, missing from the story? If so, in what way?

Part 3 of the Story: ‘The Current Situation with Debt’

The Story of Debt Cancellation: The good, The Bad... and the Downright Ugly

The story of the struggle for debt cancellation is a story of many parts.

The Bad Part...

Despite the successes, debt cancellation campaigners argue that cancellation has not gone nearly far enough. They argue that the recent debt cancellation deals fall short because they exclude:

Many debts owed by Southern countries to the World Bank and IMF as the deal only covers a certain time period.

Many Southern countries – for example Kenya and Cambodia have not received any World Bank or IMF debt cancellation.

Many other lending bodies have not given debt cancellation such as: other regional banks, rich country governments and private sector debt.

The Downright Ugly Part...

The balance of power between North and South is still unequal...

Unfair Conditions

While many countries have benefited, and are due to benefit from the 2005 debt deal, to qualify, they have to implement a huge range of policy changes in their countries. This means that **debt cancellation comes with strings attached**. For example, to receive debt relief, the Tanzanian government had to privatise the water supply in the capital city, Dar Es Salaam. The results were disastrous, with the contractor delivering a very bad service. In 2005, just 2 years later, the Tanzanian government cancelled the contract.

Doubling Dealing in Aid

Some debt cancellation has merely been a case of giving with one hand and taking with the other. Rich countries who agreed to some debt cancellation, are now reducing their amounts of aid to Southern countries. In 2006, European governments counted Euro 11 billion as aid, but it was actually debt cancellation.

Ask yourself

- What are the key points of the story you read?
- Are there justice issues raised in the story?
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- Do you think there is important information, or other points of view, missing from the story? If so, in what way?

Part 4 of the Story: The Story of Illegitimate Debt

The slogan of justice campaigners of the Global South is: 'We Don't Owe so We Won't Pay!'

Millions of euro every day is still flowing out of impoverished countries due to debt repayments. The legitimacy of many of these debts is being questioned by people in the Global South. This is because much of the remaining debts owed by Southern countries have resulted from loans given:

- For useless or overpriced projects.
- To corrupt leaders who stole the money or used it to oppress their people – by buying arms for example.
- On unfair terms and conditions.

In many cases, it is clear that the lenders were aware of these dangers and are even complicit in turning a blind eye to them so they could benefit economically.

The Devil in the Detail – Good Loans? Bad Loans?

As a response to irresponsible lending and borrowing, campaigners in rich and poor countries are calling for *audits* of the loans provided to poor countries. This is so that the circumstances of each loan can be clearly examined. Some shocking stories have been revealed through these audits that require independent investigation.

Unjust Bi-lateral Lending: The Case of Indonesian Warships Loan

Amount: Euro 306 million approx

[The German government does not publish details of individual loans]

Owed to: German Government

Germany exported renovated, used warships to Indonesia during the Suharto regime despite concerns over how the vessels would be misused in internal conflicts. In the summer of 1999, former German landing craft were used in the massacre of East Timor by Indonesian army supported militia. In January 2000, former German vessels took part in a sea blockade of the Maluku Islands which led to the displacement of thousands of people. In May 2003, one of the vessels landed troops in the port of Lhokseumawe in the civil war province area of Aceh. In the raid, 10 villagers were killed including a 10 year old boy. German and Indonesian campaigners argue that this loan is not legitimate because

- The export of the ships contributed to violations of fundamental human rights (*ius cogens* violations).

Loan Status: Germany is possibly still owed approx Euro 200 million

Source: Eurodad, 2007, Skeletons in the Cupboard: Illegitimate Debt Claims of the G7

Unjust Multi-lateral Lending: The Case of Philippines Textbooks Loan

Amount: US\$ 100 million

Owed to: The World Bank

This loan was meant to fund 17.5 million social studies textbooks and teachers manuals for primary and secondary schools in the Philippines. This project has allegedly been riddled by high profile fraud. In the bidding process, the World Bank allegedly pressured the Inter-Agency Bids and Awards Committee (IABAC) to reverse its decision on awarding the contract to a publisher earlier disqualified by the IABAC due to 'conflict of interests'. A Filipino Senator, Panfilo Lacson found that at least 60,000 textbooks were found to have inverted and incorrect pages. Filipino campaigners argue that this loan is illegitimate due to:

- Support of monopolistic corruption
- Damaging national student education
- Infringement of sovereignty by the World Bank in the Philippines

Loan Status: Paid!

Source: Freedom From Debt Coalition, Philippines, forthcoming report in 2008

Ask yourself

- What are the key points of the story you read?
- Are there justice issues raised in the story?
- Does the story help you to understand how the debt problem might be tackled and the challenges involved? If so, in what way?
- Do you think there is important information, or other points of view, missing from the story? If so, in what way?

ACTIVITY 3:

Who's Who in the Debt Crisis? Let's Engage in the Debate!



Aim

To assist participants understand the role of the various stakeholders in the debt crisis and to debate where responsibilities may lie in addressing it.

Resources Needed:

Flipchart and markers, a photocopy of 1 different card per group, photocopies of the 'Illegitimate Debt Questions and Answers' for each participant.

Time Needed

1 hour

'How to Play'

- Split your group into 8 and give each group a card. If you only have 8 people you can give one card to each person. If you are working with a smaller group, a minimum of 4 people / groups are required (1 representative of a financial institution, 1 representative of the Irish government, 1 representative of a Southern campaigning group and 1 representative of an Irish campaigning group).
- Tell the group that they have been asked to a meeting hosted by an Irish and a Southern anti-poverty group to discuss the problem of illegitimate debt. The Irish and Southern anti-poverty groups are co-chairing the meeting and are devising the agenda.
- Give each group a card and tell them this is a background card to explain the character they will play at the meeting. Ask each group to nominate a representative to attend the meeting. Give them 10 minutes to read the card. Then give them the support notes on illegitimate debt to read to assist them to imagine what others at the meeting might say to them. Ask the group to think of the 3 key points that they would like to communicate at the meeting. Ask the group to also consider what issues they think might be raised by the other participants at the meeting and how they might respond to them.

Card 1: The World Bank

What is the World Bank?

The World Bank Group was founded in 1944 to rebuild Northern countries after World War II. The Group is made up of 5 bodies:

- The International Development Association (IDA)
- The International Bank for Reconstruction and Development (IBRD)
- The International Finance Corporation (IFC)
- The International Centre for Settlement of Investment Disputes (ICSID)
- Multilateral Investment Guarantee Agency (MIGA)

IDA and the IBRD are the 2 bodies that make up 'The World Bank'.

The aim of the World Bank is to tackle world poverty. It operates by providing loans and technical assistance to Southern countries. Traditionally, the World Bank financed large infrastructure projects, but now it also funds social projects in the area of health and education.

How the World Bank Works

The World Bank is funded by its member countries and the interest paid on the loans it gives to Southern countries. A country's influence in the World Bank is determined by the amount of money it pays in. The more money a member country pays in, the greater its influence over decision-making. The most powerful members are the G8 countries who have the most seats on the board of directors of the World Bank. The World Bank is owned by 187 member governments. Each member government is a shareholder of the Bank, and the number of shares a country has is based roughly on the size of its economy. This "one-dollar-one-vote" structure affords richer countries greater power in decisions-making processes at the institutions than poor, borrowing countries.

The United States is the largest single shareholder, with about 16% of votes, followed by Japan, Germany, the United Kingdom and France. The remaining shares are divided among the other member countries. All Southern country borrowers have 39% of the voting share combined. The 47 sub-Saharan African nations command less than 6% of the votes.

The head of the World Bank, is traditionally appointed by the United States government through a secretive process.

The World Bank's Impact

The World Bank has a big impact on people living in indebted countries. It is the biggest lender providing billions of dollars per year in loans and grants. The loans to Southern countries come with policy conditions attached to them, like privatisation of electricity or with political conditions such as tackling corruption.

Things the World Bank has said:

"Our dream is a world without poverty" – World Bank Motto.

Activity:

Devise 3 points that you would like to make to the campaigning groups at the meeting on how to tackle the problem of debt.



Card 2: The International Monetary Fund (IMF)

What is the IMF?

The IMF was created in 1944, with the aim of creating global economic stability and improved global economic cooperation. The IMF has 185 countries members.

The IMF focuses on large-scale economic and financial issues. It surveys national economic policies, and discourages policies it believes have negative effects on the world economy, or the economies of other member countries. It provides short-term loans and technical and economic assistance to Southern countries. However, more recently, the IMF began issuing longer term loans. These loans are attached to a set of policy changes which must be implemented if the loan is to be released.

How the IMF Works

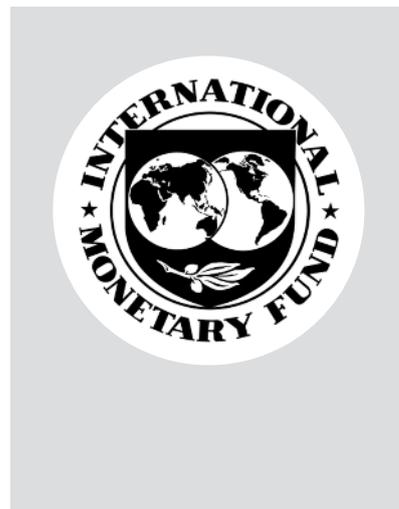
The IMF is funded by its member countries, which pay a subscription when they join. This amount is decided by the size of the country's economy, which also determines the size of their vote in the IMF. Thus, the US has about 17% of the votes, while countries of the whole African continent have only about 6% of the vote. The richer the country, the bigger the vote. Rich countries also dominate day-to-day decision-making procedures.

Since the financial crisis hit the IMF has been given huge sums of money by its richest members to lend to economies in crisis

The Impact of the IMF

The IMF often acts as a 'gatekeeper' to debt relief and aid. As a powerful voice on macroeconomic conditions, failure to gain IMF approval can lead to donors withholding aid and loans. Southern governments also have to comply with IMF policy conditions before they can avail of World Bank services, and vice versa.

The World Bank and IMF often co-operate with each other in deciding policy conditions.



What the IMF has said:

'The IMF provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty'.

Activity:

Devise 3 points that you would like to make to the civil society groups at the meeting on the problem of illegitimate debt.

Card 3: The Irish Government

The Irish Government's Role

The Irish government is involved with the debt crisis in two ways: as a member of international lending institutions, such as the World Bank, IMF and Asia Development Bank, and as a financier of debt cancellation through the World Bank and IMF. Ireland has been a member of the IMF and the World Bank since 1957, and joined the Asian Development Bank in 2006. Ireland's representative in these institutions is the Minister for Finance. Ireland's voice in these institutions is small, because of its size. Ireland sits in a grouping in the World and IMF chaired by the Canadians and with 11 Caribbean countries.



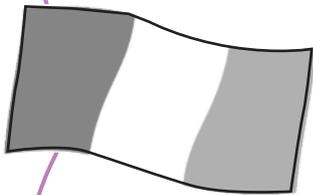
Ireland's Position

Ireland was the first Northern country to argue for 100% debt cancellation for the poorest countries. After the G8 debt cancellation deal in 2005, Ireland was the first Northern country to pay up Ireland's contribution all at once which amounted to €59 million. Irish campaigners are pressuring the Irish government to take action to cancel illegitimate debts.

The Irish government has acknowledged that some World Bank and IMF policies are flawed, despite these misgivings, the Irish Department of Finance continues to support the World Bank and the IMF through financial contributions.

What the Irish Government has said:

“Ireland has a strong record on the issue of debt relief for developing countries. Having always given our assistance in grants, Ireland is not a bilateral creditor. We took a lead in advocating for 100% debt cancellation for the least developed countries. [...] It is important that debt relief is not seen as an end in itself. It is about mobilising additional resources to fund development. In the World Bank and in other fora we will seek to ensure that funding for debt relief is additional to resources already committed for development cooperation and that the relief provided results in more resources being made available in LDCs for poverty reduction activities”. In *Ireland's White Paper on Irish Aid*.



Activity:

Devise 3 points that you would like to make to the civil society groups at the meeting on the problem of illegitimate debt.

Card 4: Northern Governments

Northern Governments are the most powerful in the international financial institutions. The most powerful governments (the USA, Canada, France, Germany Italy, Japan, Russia, and the UK) form a club called the G8. The G8 are very powerful, and can easily affect the decisions of the World Bank and the IMF. There are other Northern lender groups, such as the Paris Club and London clubs. The Paris Club is an informal group of official creditors who co-ordinate with each other in working with Southern countries who are experiencing payment difficulties experienced by debtor nations. While the G20 - which includes some large Southern economies - now has more power, the G8 countries still wield the most influence in the world.

Northern Governments have lent to Southern Governments for decades. Some lend directly (bilaterally) and some lend through institutions, (multi-laterally), such as through the World Bank and IMF.

In response to public pressure, Northern governments have reduced, rescheduled or cancelled some debt. Debt relief however is often included as part of aid, which means that Southern countries often receive less aid as a result of direct debt cancellations. Sometimes, political considerations influence debt relief. In 2004 the US government wrote off Iraqi debt, arguing that the loans had been of no benefit to Iraqi citizens. However, the World Bank, in which the US has a deciding vote, claims that this reasoning is not sufficiently clear to lead to a definition of illegitimate debt. So while Northern governments recognise that debt is a barrier to Southern development, so far, only Norway has recognised the concept of odious or illegitimate debt.

The Case of Norway

Between 1976 and 1980, Norway lent to Southern governments by giving them ships, which had to be paid for in dollars over future years. For many years activists campaigned against the loans, stating that the ships were of little use to the emerging economies of the South, and the massive cost of repaying the loan was damaging. Furthermore, it was evident that Norway had 'pushed' the loans, to help its faltering shipbuilding industry. In 2006, Norway announced that the debts would be cancelled. They acknowledged 'shared responsibility' for the debts.



What Northern Governments have said:

"[The ship loans] represented a development policy failure. As a creditor country Norway has a shared responsibility for the debts that followed".

Minister Solheim, Norwegian Minister for International Development, 2006

"We should never leave countries with an impossible choice between paying or defaulting on unsustainable levels of debt. Immovable mountains of debt run up in the 1980s have become impassable barriers to progress for poor countries".

Gordon Brown, 15 December 1998

Activity:

Devise 3 points that you would like to make to the civil society groups at the meeting on the problem of illegitimate debt.

Card 5: Southern Governments

As Northern governments dominate the most powerful international institutions, Southern governments have little power over decisions that affect them. Southern governments often lack the resources needed to deal with complex World Bank and IMF lending and policy conditions. Southern governments have started to form their own banks and regional governance initiatives, such as the African Development Bank, the Bank of the South, and the African Union.

Governments have to finance debt from state revenue which means reducing services such as health and education. In some of the poorest African countries, up to 40% of government revenue is now allocated to servicing foreign debts. Southern governments are often portrayed as inefficient, corrupt, and unable to independently look after the best interests of their citizens. Irrespective of government type it is always the people of the South who must pay for debt through their taxes, and decreased social services.

Borrowing governments often lack the resources to analyse all aspects of their outstanding debts and their legitimacy. However, in 2007 the government of Ecuador set up a Commission to research all aspects of Ecuador's debt. It aimed to investigate both legal and financial issues of the debt – such as any irregularities in the loan contracts, and whether interest was set at fair level – as well as the social and environmental impacts of the projects that the loans financed. The audit uncovered a wide array of unjust and irresponsible loans.



What they said:

“This will not be a simple financial audit of the debt, but will consider all relevant legal, political and economic factors which have led to the accumulation of illegitimate debt in this country. The audit commission must also consider social and environmental damages to local populations caused by debt. Debts which are found to be illegitimate must not be paid. Debts which are legitimate must be reimbursed.”

Ricardo Patiño, Former Economy and Finance Minister of Ecuador speaking about the Ecuador Debt Audit Initiative

“Should we really starve our children to pay our debts?”

The Late Julius Nyerere, former President of Tanzania

“[...] frankly, it is a scandal that we are forced to choose between basic health and education for our people and repaying historical debt.”

President Mkapa former president of Tanzania

Activity:

Devise 3 points that you would like to make to the civil society groups and the financial institutions at the meeting on the problem of illegitimate debt.

Card 6: Southern Justice Campaigners

Activists at World Social Forum, Kenya 2007

Jubilee South is a Southern debt cancellation network, with members in Latin America, Asia-Pacific, the Caribbean and Africa. Jubilee South campaigns under the theme of, **'don't owe, won't pay!'** Jubilee South argues that the North is indebted to the South. They argue that intense Northern industrialisation and advantageous deals on agricultural and raw materials, means that the North has long benefited at the expense of Southern natural resources and environmental health. Jubilee South highlight that Northern economic successes have been built on colonialism, slavery and unfair trade practices.



Jubilee South strongly opposes the policy conditions that are attached to loans and debt cancellation processes. The Filipino 'Freedom From Debt Coalition' is the Global South's longest running campaign for debt cancellation. They have carried out 'people's debt audits' of the existing debts owed by the Philippines and highlight how many of the debts are illegitimate and should never have been given or accepted.

What they have said:

"We call for the repudiation of unjust and illegitimate debt for undermining popular sovereignty and for holding the people and countries of the South captive to the chains of poverty and 'underdevelopment'."

Jubilee South

"Jubilee South further calls for restitution of and reparations for the massive ecological, moral, social, financial, and historical debt of which we – the peoples of the South – are the creditors: a debt accumulated during the long history of colonization and that continues to accrue now through the continued plunder and exploitation of our resources, and our people".

Jubilee South

"And we the housewives ask ourselves: What have we done to incur this foreign debt? Is it possible that our children have eaten too much? Is it possible that they have studied at the best colleges? Have our wages become too great? Together we say: NO, NO; we have not eaten too much. NO, we have not dressed any better. We do not have better medical assistance. Then to whom have the benefits gone? Why are we the ones who have to pay this debt?"

Dominga de Valasques, Bolivia

"The G8 must recognise that the issue of irresponsible lending and illegitimate debt begins first and foremost with themselves. We call on the G8 to acknowledge their co-responsibility in the accumulation of illegitimate debts and to cancel these claims immediately."

Lidy Nacpil, Jubilee South.

"First we are not asking for debt `forgiveness'. To receive `forgiveness' is to acknowledge guilt. But Zambia has been, with considerable diligence and sacrifice, meeting its debt service. Our incurring of debt has not primarily been our fault, and hence `forgiveness' is not what we are seeking but justice!"

Zambian church leaders, August 1998

Activity:

Work with the Irish civil society group to devise the agenda that should be discussed at the meeting and the 3 key points you would like to make at the meeting to the governments and to the financial institutions.

Card 7: Northern Justice Campaigners

There are many Northern based groups and coalitions that research and campaign for debt justice. Northern justice groups are calling on all lender governments, IFIs and commercial credit sources, to deliver a just resolution to the debt crisis.

The campaigns involve informing people about debt so that they know about the policies of institutions that represent them. This involves highlighting the negative impacts of debt on people in the South. Northern debt cancellation groups, including Debt and Development Coalition Ireland, are calling on Northern governments to cancel illegitimate debts. They argue that debt audits should be carried out within the international financial institutions so that it can be ascertained whether the loans were given ethically. These groups also advocate for their governments to introduce a new set of responsible financing standards so that bad loans are not given again in future.



What they have said:

“The Debt and Development Coalition Ireland is calling for: the cancellation of unpayable debt - the payment of which undermines people's right to secure and fulfilled lives. And the cancellation of illegitimate debts - which arose out of unjust and irresponsible lending.”

- Debt and Development Coalition Ireland.

“We call for the immediate suspension of the policies and practices of the International Monetary Fund (IMF) and World Bank Group which have caused widespread poverty, inequality, and suffering among the world's peoples and damage to the world's environment.”

- 50 Years is Enough, USA.

Activity:

Work with the Southern civil society group to devise the agenda that should be discussed at the meeting and the 3 key points you would like to make at the meeting to the governments and to the financial institutions.



The Illegitimate Debt Cancellation Debate:

Most governments, and financial institutions, such as the World Bank and the IMF, have refused to recognise the concept of illegitimate debt. What arguments have they put forward and what has been the response of the debt cancellation campaigners?

Argument 1: 'Enough is Being Done'

Governments Say: Existing Debt cancellation mechanisms have delivered billions of Euro to poor countries.

Campaigners Say: True, but it is too slow, comes with unfair strings attached, and it does not benefit enough countries or target enough lenders.

Argument 2: 'Bad Debts are the Borrowers Fault'

Governments Say: The responsibility lies with the borrowers for misusing money or borrowing unwisely.

Campaigners Say: The burden of irresponsible lending cannot only lie with the borrower as it currently does. For example, in national laws, it is the responsibility of the creditor to exercise 'due diligence' when they give a loan to an individual. There are guarantees against extortionate interest rates and penalty charges. And, should anything go wrong, national bankruptcy procedures ensure a resolution to avoid a run on the borrower's assets. We need similar structures for international lending.

Argument 3: 'Lender confidence would be eroded'

Governments Say: If debts are cancelled on the basis of being illegitimate, lender confidence will be damaged. Then lenders will stop investing in poor countries, hence denying them much needed resources.

Campaigners Say: This argument was also made before the current debt cancellation arrangements were put in place and they have not had a negative impact on the countries' ability to borrow. In reality, investors invest in a country when they can expect a reasonable return.

Argument 4: 'It's more realistic to concentrate on future responsible lending, not on the past'

Governments Say: The area of illegitimate debts is too complicated. We should focus on the future so that further debt crises can be averted.

Campaigners Say: We agree that standards of responsible lending must be established. However, if rich country governments want to have credibility in discussing responsible lending, they must also look at their own record on past lending and the ways in which this has contributed to the debt crisis. By cancelling illegitimate debts, the international community sends a strong message to creditors that irresponsible lending practices have serious consequences.

Suggested Websites for Further Reading

www.debtireland.org

The Irish debt campaign. Check out our 'resources' section for recent campaign materials and progress papers on debt justice.

www.jubileedebtcampaign.org.uk

UK based campaign. Follow the 'Debt Crisis' link to their comprehensive 'question and answers' section. The 'resources' and 'education' sections have useful learning resources for teachers and activists.

www.jubileesouth.org

One of the largest southern networks of activists, campaigns and groups working on debt justice. This site contains comprehensive information about debt, debt justice, research and campaigns. An excellent debt resource from those whom it affects most.

www.brettonwoodsproject.org

The website of the IMF and World Bank watchdog. This site contains very detailed articles on recent developments.

www.bicusa.org

Website of the Bank Information Centre. Provides in-depth information and overviews on international financial institutions, policies and regions, with updates on bank developments.

www.worldbank.com

The official site of the World Bank. Useful for information on different countries and regions.

www.imf.org

The official website of the IMF. Useful for information on different countries and regions.

Some regional and national activist groups that give a more localised view on debt issues:

www.eurodad.org

A network of European development NGOs. This site has very useful overviews of the different issues regarding debt justice.

www.afrodad.org

An African network of debt cancellation campaigns. This site has very useful country case studies on debt and related issues.

www.sarpn.org.za

Southern African Regional Poverty Network

www.jctr.org.zm/jubilee-zambia.htm

Jubilee Zambia.

www.freedomfreomdebtcoalition.org

Philippines Freedom from Debt Coalition.

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