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| **The European Union and debt justice**  **March 2013**  For further information contact: Tim Jones, Policy Officer  Email: [tim@jubileedebt.org.uk](mailto:tim@jubileedebtcampaign.org.uk)  Phone: +44 20 7324 4725 | **JubileeDebtLogo-RGB-Web** |

**1. The debt context**

Following global campaigning for the cancellation of developing country, $130 billion of debt has been cancelled for 35 impoverished countries, primarily in sub-Saharan Africa. This has helped to increase public spending on services such as health and education. The IMF and World Bank estimate expenditure on activities defined by them as ‘poverty reducing’ in countries receiving debt cancellation has increased from 7 per cent of national income in 2000 to 9 per cent in 2009.[[1]](#endnote-1)

One key benefit of savings from debt cancellation has been an expansion in public education. In several countries, savings allowed governments to abolish user fees – though often these had first been brought in as a condition of IMF and World Bank lending in the 1980s and 1990s. Across the debt cancellation countries where there is data, primary school enrolment increased from 59 per cent of children in the early/mid-1990s to 63 per cent in 2000 and 83 per cent by 2010.[[2]](#endnote-2)

However, many countries were excluded from the debt cancellation scheme because they were ‘too rich’ (eg Jamaica), not heavily indebted enough (eg, Bangladesh), or for arbitrary reasons (eg Pakistan). Many of these are still trapped in an unsustainable debt cycle, where new loans are given to partly pay for old debts, interest payments lead to net flows of resources out of the country, and austerity conditions depress growth and hurt public services. Jamaica, Grenada, Pakistan, the Philippines, El Salvador and Tunisia are among the countries where foreign debt payments cost governments over 15%, and sometimes close to 30%, of government revenue.[[3]](#endnote-3)

Moreover, the same cycle is now being repeated in Europe. Unsustainable debts have been created in many EU countries, often as the result of debts originally contracted by banks and the wider private sector. Bank bailouts, and the economic crisis banks caused, have resulted in the creation of large public external debts. The response to this has been the same as in the global South. More loans have been given, bailing out the reckless lenders, leaving the debt with the country concerned, and starting an unsustainable cycle of high debt payments and austerity. Greece, Ireland, Portugal and Hungary are also all now spending between 15 and 30 per cent of government revenue on foreign debt payments.[[4]](#endnote-4)

**2. Our questions of parliamentary groupings**

**2.1 The holding of public audits into the debts of EU and developing countries, to determine who benefited from lending and borrowing, and to adjudicate on the legitimacy of the debts?**

Citizens groups in many countries have called for public audits into debts to find out where the debt comes from. Such audits could investigate:

- who benefited from the original lending and borrowing

- whether any loans were illegal or illegitimate, and so should not be paid

- how to prevent unsustainable and unjust debts being recreated again in the future

How debt audits would work would depend on the particular context. For example, in Zimbabwe, groups such as the Zimbabwe Coalition on Debt and Development want an audit to identify the origins behind the current unsustainable debt, and to create parliamentary processes to help stop the government and lenders creating unjust debts again in the future.

There are calls for public debt audits in countries as diverse as Zimbabwe, Pakistan, Tunisia, Egypt, Ireland, Greece, Spain and Portugal.

**2.2 Cancelling a share of the external debt of EU governments arising from the 2008 banking crisis (for example, those of Greece, Ireland, Spain, Portugal and Latvia), and a share of the debts of heavily indebted developing countries (for example, Grenada, Jamaica, Pakistan, El Salvador and Tunisia)?**

As mentioned above, foreign owed debts in several developing countries and EU countries are unsustainable. Even where debt restructurings have taken place, for instance in Greece and Jamaica, they were too small, and too late in the debt crisis, to make the debt sustainable again. Even the IMF now admits that debt restructurings in recent years, including in Greece and the Caribbean, “have been too little and too late”.[[5]](#endnote-5)

Under the current system, where reckless lenders are bailed-out, a moral hazard is created. Lenders can keep acting recklessly, knowing that they will always get their money back. The earlier debt write-downs take place, the more likely it is that any costs will be borne by the original reckless lenders. This would protect the public from taking on the costs of reckless lending, whilst making the financial sector less likely to lend recklessly again in the future.

**2.3 The creation of a fair, independent and transparent arbitration process for sovereign debts, to enable efficient and legal write-downs of debts during sovereign debt crises?**

One mechanism for ensuring debt write-downs happen in a quick and efficient way would be the creation of a fair, independent and transparent arbitration process for sovereign debts. Such a mechanism could be used when a crisis becomes apparent. Rather than bailing out reckless lenders, a body independent of all creditors and debtors could conduct an assessment of the sustainability of a country’s debt. Debts would then be reduced to get debt back to a sustainable level. The creation of such a mechanism would make reckless lenders realise they would be less likely to get bailed out, and so cause them to lend more responsibly. This in turn would reduce the likelihood of debt crises in the future.

**2.4 Reform of voting power within international financial institutions, such as the IMF, so that voting shares are determined via a democratic structure that ends the existing vote bias favouring richer countries and ensures developing countries' voices are no longer under-represented?**

Rich countries continue to have a disproportionate voice in running international institutions such as the IMF. For instance, EU countries, with 7% of the world’s population, hold 32% of votes in the IMF. In contrast, sub-Saharan African countries have just 5% of the votes, despite containing 13% of the world’s population. In 2010, IMF members agreed to make small changes to make voting shares more equal. Yet this has still not been implemented.

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| flag_yellow_low | *This briefing has been undertaken with the assistance of the European Union. The lecture is the sole responsibility of Jubilee Debt Campaign, and can in no way be taken to reflect the views of the European Union.* |

1. IDA and IMF. (2011). Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation and Proposals for the Future of the HIPC Initiative. International Monetary Fund and World bank. Washington DC. 08/11/11. [↑](#endnote-ref-1)
2. Calculated from World Bank Global Development Finance database. [↑](#endnote-ref-2)
3. Calculated from World Bank World Development Indicators database. [↑](#endnote-ref-3)
4. Calculated by Jubilee Debt Campaign using data from the World Bank and OECD. For more information see <http://jubileedebt.org.uk/countries> [↑](#endnote-ref-4)
5. <https://www.imf.org/external/np/pp/eng/2013/042613.pdf> [↑](#endnote-ref-5)