

# Debt in the downturn

**New loans and new rules proposed to help impoverished countries through critical times. Is this the right response?**

**European Network on Debt and Development**

30 September 2009

## ***About this discussion paper***

This EURODAD discussion paper has been put forward based on discussions at EURODAD's international conference in Barcelona in June 2009. The paper aims to generate constructive debate on the analysis and proposals it contains. The views presented do not necessarily reflect those of all EURODAD member organisations. EURODAD is actively soliciting feedback on this discussion paper from all interested organisations and individuals. Please send your views to [ghurley\[at\]eurodad.org](mailto:ghurley@eurodad.org) before end-October 2009. A final version will be issued in November.

This discussion paper was written by Gail Hurley at EURODAD. The author would like to thank the following people for their research assistance and comments on earlier drafts: Dominique Monti (EURODAD), Alex Wilks (EURODAD), Jürgen Kaiser (Erlassjahr.de), Sarah Edwards, Jubilee Debt Campaign UK, Penny Davies (Diakonia).

## ***About the European Network on Debt and Development***

The European Network on Debt and Development is a membership network of 59 NGOs assessing and influencing official development finance policies. It is:

- a specialist group which produces research and analysis;
- a clearing-house for synthesising and exchanging NGO and official information;
- a facilitator of meetings and processes which improve concerted advocacy action by NGOs across Europe and with allies in the south.

EURODAD works to push for policies that support pro-poor and democratically-defined sustainable development strategies. We support the empowerment of Southern people to chart their own path towards development and ending poverty. We seek appropriate development financing, a lasting solution to the debt crisis and a stable international financial system conducive to development.

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- Implementing the G20 deal on IMF drawing rights and gold sales and the review of lending facilities for low-income countries;
- G20: additional emergency funding required to mitigate crisis impacts on poorer countries;
- Eurodad analysis of the April 2009 G20 communiqué;
- Bail-out or blow-out? IMF policy advice and conditions for low-income countries at a time of crisis;
- IMF financial package for low-income countries: Much ado about nothing? (with Bretton Woods Project, ActionAid and Third World Network);
- Dangerous derivatives at the heart of the financial crisis;
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## *A. Executive Summary*

Developing country debt is once again high on the agenda of policymakers and the international financial institutions. The global financial crisis has hit developing countries hard: a sharp contraction in global demand, volatile commodity prices, lower levels of migrant remittances, uncertain levels of official development assistance, increased spreads on sovereign bonds and lower levels of affordable capital have all combined to significantly worsen the budgetary position of many governments. In 2009 alone, the shortfall in external financing is estimated at between US\$350 and US\$635 billion.

Billions of dollars in new loans are being thrown at the problem and the G20 has given the international financial institutions a central role in delivering this money. An additional US\$500 billion in resources has been funnelled to the IMF. Since the outbreak of the crisis, the institution has provided US\$170 billion in new loans to 32 countries. The World Bank has also increased its lending activities by 54% over the previous year. To justify its stepped-up official lending programme, rich country governments have pressed the World Bank and IMF to re-write their rules on debt sustainability. The Bank and Fund have re-cast the debt sustainability framework for low-income countries to allow countries to take-on more debt without them being considered in debt 'distress'. The new rules overlook certain state liabilities and rely on migrant remittances as an additional way to pay back sovereign debt.

This policy response will store-up significant debt problems for countries in the future. Already there are concerns that some impoverished countries are at moderate or high risk of debt distress mainly due to export and income shortfalls, as well as the impact of currency devaluations. The debt-to-GDP ratios of 28 low-income countries already exceed 60%. This is more than double the number in this situation before the outbreak of the global recession. UNCTAD points to serious concerns over the debt burden in 49 least developed countries.

Developing countries were not responsible for the current global economic downturn. And yet, they are being forced to indebt themselves further to meet rising demand for social spending. A moratorium on external debt service payments would be a more just and effective way to release extra funds for critical investments in poverty reduction and economic growth. EURODAD has calculated that a two year moratorium on external debt service payments for 64 of the world's poorest countries would release over US\$30.5 billion in extra finance.

Providing new loans to countries to help them meet temporary shortfalls in external finance only addresses the symptoms, not the cause, of why many countries retain a chronic dependence on foreign credit. One reason is the massive illicit capital outflows from developing countries, estimated at around US\$1 trillion every year. In addition, an estimated US\$105-180 billion in so-called 'stolen assets' from developing countries are hidden away in rich country banks. Recognition of the problem is growing but international efforts to crack down on tax evasion, curb capital flight and repatriate stolen wealth need to be dramatically scaled-up.

With or without a debt sustainability framework, there will always be cases when countries run into sovereign debt difficulties or have serious allegations of illegitimate debt. A fair and transparent debt arbitration procedure, as advocated in EURODAD's Charter on Responsible Finance, must be introduced to deal with these cases. In the last year policymakers have found several new ways to address corporate debt. It is now time to propose new approaches for sovereign debt.

## ***B. Introduction – debt distress in the downturn***

The IMF, World Bank and UNCTAD have all recently cited concerns that many impoverished countries may once again face sovereign debt difficulties due to the significant pressures of the global economic downturn. In 2007, before the outbreak of the financial crisis, 12 low-income countries had debt-to-GDP ratios of over 60%.<sup>1</sup> By March 2009, the IMF reported that the debt-to-GDP ratios of 28 low-income countries already exceeded 60%.<sup>2</sup> This is twice the official threshold level for debt sustainability for countries with weak institutions. The World Bank has said also that, “a number of low-income countries are at high or moderate risk of debt distress.”<sup>3</sup> In its 2009 Least Developed Countries (LDC) report, UNCTAD points to serious concerns over the unsustainably high debt burden in 49 LDCs.<sup>4</sup>

The global financial crisis was caused by the irresponsible behaviour of banks and corporations based in developed countries. But its impact has been felt around the world and developing countries have been hard hit. They have faced multiple and simultaneous external shocks such as a sharp contraction in global demand, a decline in world commodity prices, lower levels of migrant remittances, uncertain levels of official development assistance, increased spreads on sovereign bonds, lower levels of affordably priced capital and a fall in foreign direct investment, to name just a few. Combined, these pressures have significantly worsened the budgetary position of many governments. In 2009 alone, the shortfall in external financing is estimated at between US\$350 and US\$635 billion.<sup>5</sup> External debt service obligations are still expected to be paid, however and developing countries are projected to reimburse over US\$806 billion to creditors in 2009 and 2010 combined.<sup>6</sup>

In April 2009, the G20 agreed to provide billions of dollars in new loans and gave the international financial institutions a central role in delivering this money. An additional US\$500 billion in resources has been funnelled to the IMF. Since the outbreak of the crisis in September 2008, the institution has already provided US\$170 billion in new loans to 32 countries.<sup>7</sup> The World Bank has also announced a total of US\$58.8 billion in 2009 to help countries cope with the global recession. This represents a 54% increase over the previous fiscal year and a record high for the institution. Additionally, the G20 pledged US\$250 billion in trade credits and European governments have increased the financing capacities of national export credit agencies by an average of 35%.<sup>8</sup>

To help justify its lending programme, the G20 has decided to re-write its own rules, pushing through substantial reforms to the debt sustainability framework for low-income countries. The review process has concluded that many countries are in fact able to take-on and service more external debt than Bank/Fund analysts previously thought. Among the changes on the income side are including migrant remittances as contributions to countries’ capacities to repay. On the liability side, the debts of some state owned enterprises may now be excluded from calculations

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<sup>1</sup> World Bank, Global Development Finance 2009

<sup>2</sup> IMF, The Implications of the Global Financial Crisis for Low-Income Countries, March 2009: <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

<sup>3</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009, p.14:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>4</sup> UNCTAD Least Developed Countries Report 2009:

<http://www.unctad.org/Templates/webflyer.asp?docid=11721&intItemID=2068&lang=1>

<sup>5</sup> World Bank, Global Development Finance 2009

<sup>6</sup> Author calculations based on data received from the World Bank and World Bank Global Development Finance 2009

<sup>7</sup> See: <http://www.imf.org> for country-by-country information on IMF lending

<sup>8</sup> European Commission, Directorate General for Trade: Trade Finance and the Financial Crisis, May 2009

of countries' overall debt levels. These measures give countries greater scope to take-on more loans without being deemed in 'debt distress'.

This EURODAD briefing questions whether increased official loans, coupled with a reformed debt sustainability framework, are indeed the right policy responses to help countries meet the shortfall in external finance they currently face. This can only be a temporary solution and will create substantial liabilities for the future.

The World Bank has just reported that by end-2010, 89 million more people are expected to be living in extreme poverty (defined as less than US\$1.25 per day) than would have been the case without the global financial crisis.<sup>9</sup> This discussion paper argues that it is essential that governments – South and North – do not focus uniquely on how much concessional finance is being thrown at the problem or get bogged down in technical discussions over when a debt is sustainable or unsustainable. Instead the global financial crisis has increased the urgency of concerted international efforts on the much more fundamental issues related to tax evasion, capital flight, return of stolen wealth and reform of international sovereign debt management procedures.

### ***C. Global financial crisis: pressures mount on the poorest***

Developing countries have been hit hard by the global financial crisis. They are facing multiple and simultaneous external shocks. These include reduced export earnings, extreme volatility in global commodity prices, lower levels of migrant remittances, uncertain levels of official development assistance, increased spreads on sovereign bonds, lower levels of affordably priced capital and a fall in foreign direct investment to name just a few. Combined, these pressures have significantly worsened the budgetary position of many governments. For many low-income countries, the ability to deal with one external shock represented a significant challenge. Tackling the impact of multiple shocks is an unprecedented challenge. The World Bank reports that by end-2010, 89 million more people are expected to live in extreme poverty (defined as less than US\$1.25 per day) than would have been the case without the global financial crisis.<sup>10</sup> This will mean a critical reversal of progress towards achievement of many of the internationally agreed Millennium Development Goals (MDGs). Even prior to the global downturn, the goals related to child and maternal mortality, primary school completion, nutrition and sanitation were all unlikely to be met.<sup>11</sup>

The transmission channels have varied for different countries. Developing countries with large exposure to international banks, bond and equity markets – i.e. middle-income and emerging market economies – were the first to feel the impact. They have faced the simultaneous challenges of declining exports, plummeting asset prices, lower levels of (more expensive) capital and large-scale capital flight. For example, between September 2008 and March 2009 the cost of obtaining money via the sovereign bond market reached unprecedented levels for some countries. In Croatia, Lithuania and Poland, spreads widened by more than five times their level in mid-2008. In Bulgaria and Romania, spreads almost tripled.<sup>12</sup> Several low-income countries

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<sup>9</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>10</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>11</sup> World Bank, Global Monitoring Report 2009:

<http://web.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTGLOBALMONITOR/EXTGLOMONREP2009/0,,menuPK:5924413~pagePK:64168427~piPK:64168435~theSitePK:5924405,00.html>

<sup>12</sup> World Bank, Global Development Finance 2009

opted to postpone their bond issuance plans, such as Albania, Ghana, Kenya, Tanzania, Uganda, and Zambia due to prohibitively high interest rates. The Institute for International Finance estimates that commercial bank lending to emerging market economies will contract by US\$92 million in 2009.<sup>13</sup> In 2009, capital flight from Argentina alone reached US\$25 billion.<sup>14</sup>

Additional pressures on middle-income and emerging market economies stem from the fact that over 25% of these countries' external debt stocks are in the form of short-term debt obligations.<sup>15</sup> A large percentage of the US\$1.2 trillion in external debt contracted by emerging market banks and firms will mature in 2009 and 2010.<sup>16</sup> In Europe and Central Asia alone, US\$283 billion in short-term government and private corporate debt will fall due this year. This occurs at precisely the time when major international lenders may be reluctant to roll-over maturing debt obligations. This is because measures in advanced economies to recapitalise commercial banks with public funds have led to pressures on lenders to concentrate their activities on the domestic market at the expense of international lending.

For low-income countries, the largest source of pressure has come from the sharp decline in global commodity prices. For some of the world's poorest countries, commodity-related revenues constitute more than 20% of total revenues.<sup>17</sup> Between September and December 2008, global commodity prices experienced dramatic price declines due to a sharp contraction in world demand. For example, the price of copper declined from a peak of US\$3.94/lb in April 2008 to US\$1.39/lb by December 2008.<sup>18</sup> For Zambia, which is heavily dependent on copper, export income dropped by 32.6% in the third quarter of 2008 as compared to the same period the previous year.<sup>19</sup> Low-income country central government revenues will fall by an average of 2% of GDP between 2007 and 2009.<sup>20</sup> The Overseas Development Institute recently reported that, "by the end of the year, developing countries are expected to lose incomes worth at least US\$750 billion. In Sub-Saharan Africa, the figure is over US\$50 billion."<sup>21</sup>

The poorest countries are also heavily dependent on Official Development Assistance (ODA). Global ODA levels had increased to US\$114 billion in 2008, up from US\$103.5 billion in 2007.<sup>22</sup> However ODA, much like private capital flows, tends to be procyclical and fiscal pressures in donor countries may constrain further increases. Some countries such as Greece, Ireland, Italy and Latvia have already announced cuts to previously announced aid levels. Moreover, in many developed countries, ODA levels are linked to GNI. This means that where donor economies shrink, so do overall levels of aid. For example, Swedish ODA will decline from SEK 34 billion (US\$4.8 billion) in 2009 to SEK 31.5 billion (US\$4.5 billion) in 2010.<sup>23</sup>

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<sup>13</sup> Institute of International Finance, Capital Flows to Emerging Market Economies, June 2009:

<http://www.iif.com/emr/article+204.php>

<sup>14</sup> Carnegie Endowment for International Peace, Financial Transmission of the Crisis: What's the Lesson? June 2009: <http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=23284>

<sup>15</sup> World Bank, Global Development Finance 2009

<sup>16</sup> World Bank, Global Development Finance 2009, p. 1

<sup>17</sup> IMF, The Implications of the Global Financial Crisis for Low-Income Countries, March 2009:

<http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

<sup>18</sup> See: <http://www.allbusiness.com/banking-finance/financial-markets-investing-commodities/12381618-1.html>

<sup>19</sup> Li Yuefen, Collateral Damage from the Global Financial Crisis Could Land Developing Countries in Another Round of Debt Crises. February 2009

<sup>20</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009, p.11:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>21</sup> Overseas Development Institute, The global financial crisis and developing countries: 10 country case studies, June 2009. Available at: <http://www.odi.org.uk/resources/download/3413.pdf>

<sup>22</sup> See OECD statistical database: <http://stats.oecd.org/Index.aspx?DataSetCode=CSP2009>

<sup>23</sup> Diakonia: <http://www.diakonia.se>

Migrant remittances are also expected to decline by 7-10% to around US\$300 billion in 2009, down from US\$328 billion in 2008.<sup>24</sup> Remittances are an important source of income support for many poor households and large declines are likely to increase pressures on local social services and safety-net systems. The Inter-American Development Bank recently reported that remittance flows to Latin America and the Caribbean will drop by 11% this year to a three-year low of US\$62 billion in 2009; this could negatively impact more than four million people in the region.<sup>25</sup>

Foreign direct investment (FDI) has also fallen, particularly in the natural resource sectors, as declining commodity prices and difficult financing conditions in the origin country have reduced the attractiveness of these investments. In 2009, FDI flows to developing countries are projected to fall by 30% to US\$385 billion. It is the first fall of more than 10% since 1986.<sup>26</sup> The dramatic consequences of this are already apparent: FDI-generated employment in Ghana dropped from over 15,000 workers at end-2007 to 10,000 at end-2008. In Zambia, 8,100 workers in the mining sector (out of a total of 30,000) lost their jobs in 2008.<sup>27</sup>

At the same time, many developing country currencies have depreciated sharply against the major hard currencies. The Ukraine's currency, the hryvnia has dipped by 60% since September 2008.<sup>28</sup> In the first half of 2009, currencies in the Sub-Saharan region depreciated on average 25% against the US dollar.<sup>29</sup> The US\$ exchange rate of Zambia's national currency, the kwacha, depreciated by 30%.<sup>30</sup> While currency depreciation can be used as a tool to boost exports, as long as global demand remains depressed, its impact is unlikely to be significant. Moreover it increases the local currency cost of external debt service and makes repaying debts denominated in hard currencies such as US\$ or EURO much more difficult. In low-income countries, over 46% of external debts are denominated in US\$, 13% in the EURO and 12% in the yen. In middle-income countries the picture is similar: 66% of external debts are denominated in US\$, 18% in the EURO and 9% in the yen.<sup>31</sup> This has heightened fears that some countries may be unable to meet their external debt service obligations.

## ***D. Dramatic Shortfall in External Finance***

The World Bank has calculated that the crisis will cause a financial shortfall for developing countries of between US\$350 and US\$635 billion in 2009 alone.<sup>32</sup> For Sub-Saharan Africa, the external financial shortfall is in the range of US\$30-45 billion in 2009.<sup>33</sup> For Latin America and the Caribbean, it is estimated at US\$268 billion.<sup>34</sup> In the poorest 43 countries with an annual income per capita of less than US\$975, at least US\$11.6 billion of core expenditures on health,

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<sup>24</sup> World Bank Migration and Remittances Data: <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21122856~jsCURL:Y~menuPK:3145470~pagePK:64165401~piPK:64165026~theSitePK:476883~isCURL:Y,00.html>

<sup>25</sup> See: [http://www.bbc.co.uk/caribbean/news/story/2009/08/090814\\_remittances.shtml](http://www.bbc.co.uk/caribbean/news/story/2009/08/090814_remittances.shtml) In several countries in Latin America and the Caribbean, migrant remittances count for over 15% of GDP (El Salvador, Jamaica, Honduras, Haiti and Guyana).

<sup>26</sup> World Bank, Global Development Finance 2009

<sup>27</sup> Overseas Development Institute, The global financial crisis and developing countries: 10 country case studies, June 2009. Available at: <http://www.odi.org.uk/resources/download/3413.pdf>

<sup>28</sup> Carnegie Endowment for International Peace, Financial Transmission of the Crisis: What's the Lesson? June 2009: <http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=23284>

<sup>29</sup> World Bank, Global Development Finance 2009, p. 140

<sup>30</sup> UNCTAD Least Developed Countries Report 2009, p. 24:

<http://www.unctad.org/Templates/webflyer.asp?docid=11721&intItemID=2068&lang=1>

<sup>31</sup> World Bank, Global Development Finance 2009. Figures for 2007

<sup>32</sup> World Bank, Global Development Finance 2009

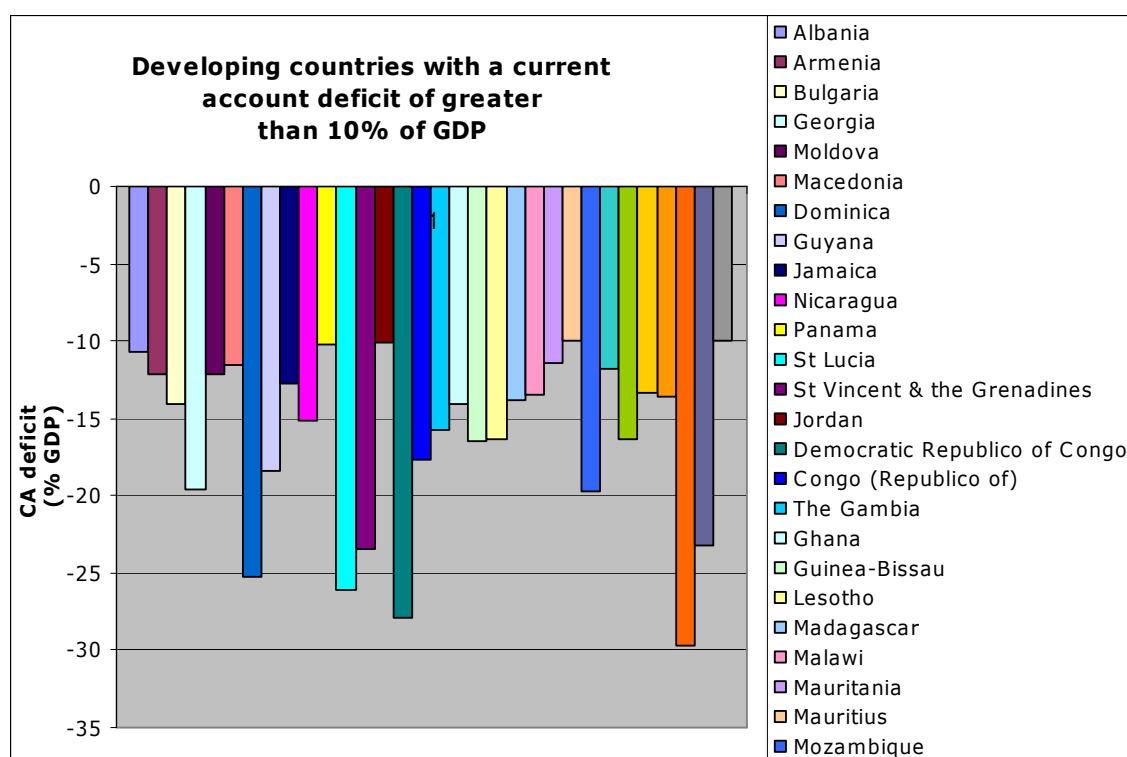
<sup>33</sup> World Bank, Global Development Finance 2009, p. 140

<sup>34</sup> World Bank, Global Development Finance 2009, p. 125

education, social safety nets and infrastructure are at risk due to the global financial crisis.<sup>35</sup> Other estimates are higher still. UNCTAD Secretary-General Supachai Panitchpakdi has said that “developing countries face a US\$2 trillion shortfall in financial resources through the outflow of capital and from the fall in export revenue.”<sup>36</sup>

Region	Shortfall in external finance: 2009
All developing countries	US\$350 - US\$635 billion
Latin America & the Caribbean	US\$268 billion
Sub-Saharan Africa	US\$30-45 billion

Some countries have been able to rely on foreign reserves accumulated over the past few ‘boom’ years to help meet their external financing gap. But some have already drawn-down their reserves significantly. At end-2008, low-income country reserves amounted to US\$69 billion, sufficient to cover less than four months of imports. This is down from an average of five months cover at end-2007.<sup>37</sup> In March, the IMF warned that in 22 low-income countries, reserves could fall to below three months of imports. However the sheer scale of many countries’ financial shortfalls means that it is unlikely that the availability of foreign reserves, private external finance and official support will be enough cover their current account deficits and repayments on external debt. In May 2009, the Bank reported that 33 countries registered current account deficits of more than 10% of GDP.<sup>38</sup> This adds to the difficulty of external debt service.



Source: Figures from Global Development Finance 2009

<sup>35</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>36</sup> Third World Network, South-North Development Monitor, July 2009: <http://www.sunsonline.org/>

<sup>37</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>38</sup> World Bank, Global Development Finance 2009

## ***E. Plugging the Gap: New Debt with the IFIs***

Rich country governments have offered increased levels of official loans to help countries meet their temporary shortfalls in external finance. It is not certain whether these pledges actually represent 'new' money or whether they simply 'reshuffle' or frontload previous commitments to increase development aid and support the multilateral financial institutions.<sup>39</sup> Certainly, a lot of attention has focused on the US\$1.1 trillion the G20 pledged to make available to developing countries to help them deal with the fall-out of the global recession. This agreement funnelled an additional US\$500 billion in resources to the IMF with substantial increases in funds for the multilateral development banks; the G20 endorsed a 200% general capital increase for the Asian Development Bank (ADB) and agreed to review the need for capital increases at the Inter-American Development Bank (IDB), the African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD).<sup>40</sup>

Between September 2008 and September 2009, 32 countries have reached agreements with the IMF for a total of US\$170 billion in new loans. This follows five years in which repayments to the institution exceeded new disbursements. Non-concessional loans make up the bulk of the new lending at US\$ 167.5 billion of the total. Concessional finance amounts to just US\$2.5 billion.

The World Bank has announced a total of US\$58.8 billion in 2009 to help countries cope with global recession. This is up from US\$38.2 billion in 2008 and represents a 54% increase over the previous fiscal year and a record high for the global development institution.<sup>41</sup> The ADB plans to increase lending assistance by more than US\$10 billion in 2009-10.<sup>42</sup>

The G20 also announced an additional US\$250 billion in support for trade finance over the next two years.<sup>43</sup> In May 2009, the European Commission reported that Governments in 10 EU Member States had provided their export credit guarantee agencies (ECAs) with increased insurance/guarantee capacity to the magnitude of €36 billion. This represents an average increase of 35%.

The combination of stepped-up IMF, and other multilateral and bilateral official lending, has pushed the official sector back into its most prominent role in providing external financing in over a decade. Whereas official lenders had provided funding equivalent to only 4% of that of private sources in 2007, this ratio will have risen almost ten-fold to 37% in 2009.<sup>44</sup>

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<sup>39</sup> See, for example, Woods Ngaire, The international response to the global crisis and the reform of the international financial and aid architecture, University of Oxford, for the European Parliament, August 2009 and Wilks Alex, EURODAD, From London to Pittsburgh: assessing G20 action for developing countries. At: <http://www.eurodad.org/whatsnew/articles.aspx?id=3820>

<sup>40</sup> G20 London Summit communiqué, April 2009:

<http://www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409>

<sup>41</sup> See World Bank:

[http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0..contentMDK:22233771~pagePK:34370~piPK:34424~theSitePK:4607,00.html?cid=ISG\\_E\\_WBWeeklyUpdate\\_NL](http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0..contentMDK:22233771~pagePK:34370~piPK:34424~theSitePK:4607,00.html?cid=ISG_E_WBWeeklyUpdate_NL)

<sup>42</sup> World Bank, Global Development Finance 2009, p. 87

<sup>43</sup> The public money being injected into the system is much less than the headline figures suggest as this money is supposed to leverage private funding and be rotated several times over. For low-income countries, the general public:private leverage ratio is 40:60 in most cases and the transactions last 110 or 270 days. The target and claimed amount of public money to be used across both initiatives is unknown. The amount for low-income countries is US\$4 billion to-date, already meeting the pledges set in April by the G20.

<sup>44</sup> Institute of International Finance, Capital Flows to Emerging Market Economies, June 2009: <http://www.iif.com/emr/article+204.php>

## Loans taken-out with the IMF between September 2008 & September 2009

Country	Date	Amount US\$	Interest rate
Armenia	06 March 2009	843,462	Non-concessional
Belarus	12 January 2009	3,587,426	Non-concessional
Bosnia & Herzegovina	08 July 2009	1,603,778	Non-concessional
Costa Rica	11 April 2009	778,179	Non-concessional
El Salvador	16 January 2009	812,322	Non-concessional
Georgia	15 September 2008	1,180,941	Non-concessional
Guatemala	22 April 2009	996,789	Non-concessional
Hungary	06 November 2008	16,656,626	Non-concessional
Iceland	19 November 2008	2,212,980	Non-concessional
Latvia	23 December 2008	2,405,234	Non-concessional
Mongolia	01 April 2009	242,321	Non-concessional
Pakistan	24 November 2008	11,437,787	Non-concessional
Romania	04 May 2009	18,087,950	Non-concessional
Serbia	16 January 2009	4,140,043	Non-concessional
Seychelles	14 November 2009	27,820	Non-concessional
Sri Lanka	24 July 2009	2,613,846	Non-concessional
Ukraine	05 November 2008	17,387,700	Non-concessional
Colombia	07 May 2009	11,011,156	Non-concessional
Mexico	17 April 2009	49,836,310	Non-concessional
Poland	06 May 2009	21,639,783	Non-concessional
<b>Total non-concessional</b>		<b>167,502,453</b>	
Republic of Congo	08 December 2008	13,373	Concessional
Côte d'Ivoire	27 March 2009	591,150	Concessional
Djibouti	17 September 2008	20,107	Concessional
Ghana	15 July 2009	612,442	Concessional
São Tomé & Príncipe	02 March 2009	4,094	Concessional
Tajikistan	21 April 2009	123,769	Concessional
Ethiopia	26 August 2009	243,041	Concessional
Kyrgyz Republic	10 December 2008	105,275	Concessional
Malawi	03 December 2008	82,275	Concessional
Mozambique	30 June 2009	179,568	Concessional
Senegal	19 December 2008	191,818	Concessional
Tanzania	29 May 2009	345,841	Concessional
<b>Total concessional</b>		<b>2,512,752</b>	
<b>Grand total</b>		<b>170,015,204</b>	

## ***F. Rewriting the Rules: Bank/Fund's definition of debt sustainability changes***

To enable rich countries to justify their decision to lend billions of dollars to developing countries, the G20 asked the World Bank and IMF to re-write their rules on when a debt is considered sustainable or unsustainable. At the Annual Meetings of the IMF and World Bank in Istanbul in 2009, the Bank and Fund will announce substantial reforms to the debt sustainability framework for low-income countries.<sup>45</sup> Rushed through this summer by the Boards of the two institutions, the revised framework gives the poorest countries greater flexibility to take-on more debt before they will be deemed in 'debt distress'. For example, despite severe data difficulties, migrant remittances will now be taken into account when assessing countries' capacities to repay their external debt. The publicly guaranteed debts of some state owned enterprises will also be excluded from calculations of countries' overall levels of indebtedness.<sup>46</sup>

In parallel, the IMF has concluded new guidelines on debt for its programmes extended to low-income countries. Previously, low-income countries which followed a Fund-supported programme (such as a Poverty Reduction and Growth Facility programme) were required to respect limits on the amount of non-concessional debt they could take-on; new loans had to respect a minimum 35% grant element. The IMF review concludes that this across-the board concessionality requirement is no longer relevant as it does not give due attention to the different capacities of poor country administrations to manage and service debt. It has been abolished and a case-by-case approach will be adopted.<sup>47</sup>

Officials in the Bank and Fund have stated that the aim of these review processes was to respond to concerns that IFI-supported programmes and the debt sustainability framework may be too procyclical and they would not want to "*unduly constrain the ability of low-income countries to finance their development goals.*"<sup>48</sup> But these reforms essentially mean that countries' are now viewed as able to borrow more without difficulties; it essentially raises their credit limits. Intelligence obtained by EURODAD reveals that many debtor governments believe they were not involved as fully as they should have been in the review of the debt sustainability framework. Additionally, civil society organisations were not consulted.

By increasing the amount of debt the poorest countries are perceived as able to take-on, international donors have given themselves a vital get-out clause; if the Bank and Fund now state that countries can actually take-on more non-concessional resources than they previously believed, where is the pressure on donors to provide more concessional finance? The IMF has said as much in its recent paper. It states: "*the application of more flexible options for concessionality requirements needs to maintain donors' incentives to provide highly concessional financing [...] it should avoid leading some donors to reduce the grant element of their new lending.*" But it offers no real solution to the problem.

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<sup>45</sup> For further information on the Bank/Fund debt sustainability framework for low-income countries, see: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20261804~menuPK:4876135~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html>

<sup>46</sup> For a critique of reforms of the debt sustainability framework for low-income countries, see: EURODAD, Review of the DSF: Bank & Fund Declare Countries can Borrow More, September 2009: <http://www.eurodad.org/whatsnew/articles.aspx?id=3830>

<sup>47</sup> IMF, Debt limits in Fund-Supported Programs: Proposed New Guidelines, August 2009: <http://www.imf.org/external/np/pp/eng/2009/080509.pdf>

<sup>48</sup> See: World Bank Debt Sustainability Framework for Low-Income Countries: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20261804~menuPK:4876081~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html>

## ***G. Moratorium on external debt service to safeguard spending***

EURODAD believes that a temporary moratorium on external debt service payments is needed to release extra funds for investment in poverty reduction and infrastructure development. Several commentators have already called for such a moratorium. In April 2009, UNCTAD Secretary-General Supachai Panitchpakdi said, “*debt-ridden developing countries already struggling with the economic crisis will be particularly hard hit if they do not receive some form of debt relief in the immediate future.*”<sup>49</sup> He called for a temporary debt moratorium for some nations. Additionally, HIPC Finance Ministers in the Commonwealth's Joint Ministerial Forum on Debt Sustainability announced in their April 2009 communiqué that they supported the “*provision of further debt relief for the duration of the crisis financed through the sale of IMF gold reserves.*”<sup>50</sup>

Many developing countries lack the resources needed to be able to implement countercyclical policies. These funds could be better spent at home. A temporary moratorium would act as a fiscal stimulus by freeing-up much-needed extra funds for investments in poverty reduction and economic development. Unlike current global policy responses this source of additional funds is non-debt creating.

In 2009 and 2010 combined, developing countries are projected to reimburse over US\$806 billion to official and commercial lenders.<sup>51</sup> For 49 low-income countries, UNCTAD has calculated that a temporary debt moratorium would release about US\$26 billion in 2009 and 2010 combined.<sup>52</sup> EURODAD has calculated that a two year moratorium on external debt service payments for the 64 PRGF/IDA only countries would release over US\$30.5 billion in extra finance in 2010 and 2011 combined.<sup>53</sup> Such an initiative would provide countries with predictable, efficient and condition-free extra resources to meet growing demand for social services and infrastructure development. It should also be additional to – and not substitute for – pledges to increase aid.

Precedents exist for such measures. Following the tsunami in the Indian Ocean in 2004, affected countries such as Indonesia, Thailand and Sri Lanka were offered a temporary moratorium on debt service payments to some of their most important creditors. In this case, Paris Club bilateral creditors offered a temporary moratorium for a period of one year although interest would continue to accrue on the loans.<sup>54</sup> More recently, the IMF announced that it would offer all low-income countries a moratorium on interest payments due on all concessional loans from July 2009 until December 2011. The IMF describes this initiative as an appropriate response to “*particularly serious economic dislocations*” and as intended to serve as a fiscal stimulus to low-income countries particularly affected by the crisis.<sup>55</sup> The total amount of foregone interest payments will amount to just US\$60-70 million over two years; but it does suggest that policy-makers and governments do believe that initiatives such as the temporary suspension of debt service payments can act as important tools to safeguard social and other priority expenditures.

This moratorium should be made available on demand to all those countries which are currently off-track to achieve the MDGs by the target date of 2015. A coordinated international agreement

<sup>49</sup> UNCTAD, Temporary debt moratorium needed for some poor nations, UNCTAD Chief says, April 2009: <http://www.unctad.org/Templates/Webflyer.asp?docID=11446&intItemID=2068&lang=1>

<sup>50</sup> The Commonwealth, 2009 Commonwealth Ministerial Debt Sustainability Forum – Statement: [http://www.thecommonwealth.org/document/211279/2009\\_commonwealth\\_ministerial\\_debt\\_sustainability.htm](http://www.thecommonwealth.org/document/211279/2009_commonwealth_ministerial_debt_sustainability.htm)

<sup>51</sup> Author calculations based on data from the World Bank and Global Development Finance 2009

<sup>52</sup> UNCTAD Least Developed Countries Report 2009: <http://www.unctad.org/Templates/webflyer.asp?docid=11721&intItemID=2068&lang=1>

<sup>53</sup> Author calculations based on Global Development Finance 2009 data. To obtain the data sets, please contact the author.

<sup>54</sup> Paris Club, Communiqué on tsunami-affected countries, March 2005: <http://www.clubdeparis.org/sections/communication/archives-2005/communique-du-club-de9652>

<sup>55</sup> See EURODAD, IMF financial package for low-income countries: Much ado about nothing? August 2009: <http://www.eurodad.org/aid/article.aspx?id=132&item=3803>

at the United Nations General Assembly would help to ensure broad buy-in and that as many creditors as possible are brought on board. But if progress is too slow for some more progressive lenders, they should not hesitate to act unilaterally and to offer this measure to borrowers which are keen to safeguard – and increase – critical social expenditures.

## A New Sovereign Debt Crisis?

Lower government revenues coupled with emergency finance in the form of loans will undoubtedly contribute to increased external debt burdens in many countries, especially over the short-term. And already there are indications that a significant number of countries are at increased risk of debt difficulties. In March 2009, the IMF reported that the debt-to-GDP ratios of 28 low-income countries exceeded 60%.<sup>56</sup> This is twice the official threshold level for debt sustainability for countries with weak institutions. It also compares to 12 countries in 2007.<sup>57</sup>

### Low-income countries at higher risk of debt distress<sup>58</sup>

Country	Debt % of GDP: (2009 simul.)
Bhutan	69
Burundi	132
Cape Verde	61
DRC	93
Côte d'Ivoire	84
Djibouti	76
Dominica	68
Eritrea	61
Grenada	86
Guinea	69
Guinea-Bissau	243
Guyana	89
Lao PDR	105
Liberia	490
Maldives	90
Mauritania	60
Mozambique	66
Nicaragua	75
São Tomé & Príncipe	88
Sudan	61
Togo	66

The Fund also estimated that should ODA and FDI inflows decline by 30% relative to the levels seen in 2008 – and the short-fall is fully replaced with public external (non-concessional) borrowing – this will add 4% of GDP to low-income countries' debt burdens over just one year. While this may not sound like much, if as some analysts predict, the effects of the global recession play-out for a few more years to come, this will substantially increase the poorest countries' vulnerabilities to debt distress.<sup>59</sup> In its Least Developed Countries (LDC) report, UNCTAD warns that, *"there is the potential for a new debt crisis to emerge in poor countries. For many LDCs, the current crisis can jeopardise their hard-won debt sustainability."* It points to concerns over the unsustainably high debt burden in a total of 49 LDCs.<sup>60</sup> Several developing countries also entered the global financial crisis with extremely high (and climbing) debt-to-GDP ratios, such as Grenada (with a debt-to-GDP ratio of 116%), Jamaica (108%),

Kazakhstan (103%), Lebanon (101%), Samoa (223%) and the Seychelles (190%).

<sup>56</sup> IMF, The Implications of the Global Financial Crisis for Low-Income Countries, March 2009: [www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf](http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf)

<sup>57</sup> World Bank, Global Development Finance 2009.

<sup>58</sup> Risk assessed as exceeding a debt-to-GDP ratio of over 60%. Assumes that ODA & FDI inflows are fully replaced with (non-concessional) loans.

<sup>59</sup> IMF, The Implications of the Global Financial Crisis for Low-Income Countries, March 2009: <http://www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf>

<sup>60</sup> UNCTAD Least Developed Countries Report 2009: <http://www.unctad.org/Templates/webflyer.asp?docid=11721&intlItemID=2068&lang=1>

## *H. Curbing capital outflows: the real route to sustainability*

A moratorium on external debt service repayments will offer impoverished countries the extra space they need to meet increased demand for social spending. The advantage of a moratorium is that it will not create new debt which must be serviced in the future. The current international response to the global recession will only push problems into the near future when new debts must be repaid and frontloaded aid dries up.

At the same time a temporary moratorium will not help in the medium-term unless action is taken to address the causes of many countries' chronic dependence on external credit. The global financial crisis has demonstrated very clearly that a dependence on external finance makes countries extremely vulnerable to sudden shifts in the availability and affordability of funds. This can dramatically affect governments' abilities to meet basic social expenditures. It also has important implications for countries' medium-term debt sustainability. Private financial flows to developing nations in 2010 are likely to remain at low levels. Total private flows to emerging market economies are projected to amount to approximately US\$66 billion in 2010, just one third of the 2007 level.<sup>61</sup> Declines in rich country economies will also translate into reduced aid in absolute terms because aid is given as a percent of Gross National Income. But why are many countries so dependent on foreign credit?

One major reason is illicit capital outflows. Financial losses from developing countries as a result of tax evasion, capital flight and corruption are estimated at over US\$1 trillion. This is ten times official development aid.<sup>62</sup> More than 60% of outflows are linked to aggressive corporate tax avoidance and evasion.<sup>63</sup> UNCTAD estimates of capital flight from Sub-Saharan Africa amount to US\$13 billion per year.<sup>64</sup> The World Bank estimates that bribes paid to public officials in developing countries amount to between US\$20-40 billion annually.<sup>65</sup> The amount of developing country wealth hidden in rich country banks – so-called 'stolen assets' – is conservatively estimated at US\$105-180 billion of a total of \$11-15 trillion of private assets parked offshore. Only US\$4.4 billion has been returned to developing countries so far.<sup>66</sup>

These outflows have been facilitated by widespread capital account liberalisation by developing countries under the advice – or coercion – of the international financial institutions. Tax havens have provided a refuge for illicit financial flows. They ensure that countries are unable to escape the vicious cycle of poverty and over-indebtedness. In 2009, international policy discussions have begun to encompass measures to curb the haemorrhage of capital outflows from developing and other countries, as well as efforts to repatriate stolen wealth and the proceeds of tax evasion. World Bank Managing Director, Ngozi Ikonjo-Iweala, told a conference in Washington DC recently that, “*we must hit financial centres very hard ... we need to hit Dubai and Jersey and Switzerland hard – this is the future of development.*”<sup>67</sup> The G20 at its September 2009 Summit recognised that “*as we increase the flow of capital to developing countries, we also need to prevent its illicit outflow.*”<sup>68</sup> Yet the G20's specific measures to-date have been too limited.

<sup>61</sup> Institute of International Finance, Capital Flows to Emerging Market Economies, June 2009:

<http://www.iif.com/emr/article+204.php>

<sup>62</sup> See Global Financial Integrity: <http://www.gfip.org/index.php?option=content&task=view&id=261>

<sup>63</sup> See EURODAD, Fight Capital Flight: <http://www.eurodad.org/debt/?id=3436>

<sup>64</sup> See EURODAD, Addressing development's black hole: Regulating capital flight, May 2008:

[http://www.taxjustice.net/cms/upload/pdf/Eurodad-WEED-CRBM-BWP\\_Capital\\_Flight.pdf](http://www.taxjustice.net/cms/upload/pdf/Eurodad-WEED-CRBM-BWP_Capital_Flight.pdf)

<sup>65</sup> World Bank, Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession, September 2009:

<http://siteresources.worldbank.org/NEWS/Resources/WorldBankG20PaperonLICsSept2009.pdf>

<sup>66</sup> Comité Catholique Contre la Faim et pour le Développement (CCFD), Biens mal acquis. A qui profite le crime? June 2009: [www.ccfcd.asso.fr](http://www.ccfcd.asso.fr)

<sup>67</sup> See EURODAD, Doing business (as usual) World Bank style, September 2009:

<http://www.eurodad.org/blog/index.aspx?id=3824&blogid=1758>

<sup>68</sup> G20 Summit, Pittsburgh communiqué, September 2009:

<http://www.pittsburghsummit.gov/mediacenter/129639.htm>

The G20 pledged to “take action against non-cooperative jurisdictions, including tax havens”.<sup>69</sup> In this area the G20 is relying on the OECD, which has set a weak international standard for exchange of tax information. The OECD now claims that “no jurisdiction is currently an uncooperative tax haven”. The G20 says that over half of the 87 jurisdictions which are being scrutinised have “substantially implemented” its standards. But to get these OECD endorsements, governments only have to commit to sign twelve bilateral Tax Information Exchange Agreements. This is far too few and the model of information exchange is flawed. Obtaining information under these agreements requires governments to submit cumbersome dossiers about citizens’ suspected tax malpractices, meaning that this system is rarely used.<sup>70</sup> And the OECD’s threshold of just 12 bilateral agreements allows governments to escape its blacklist merely by making agreements with another dirty dozen tax havens.<sup>71</sup> The G20 Finance Ministers in their meeting in September recognised the limitation for developing countries of current measures, saying that different approaches would be needed, “possibly including through a multilateral instrument”.<sup>72</sup> The G20 should deliver a new multilateral approach that will work for developing countries by its November 2009 G20 Finance Ministers meeting in Scotland.

To combat aggressive tax evasion, the United Nations Tax Committee must be strengthened immediately and an ‘International Tax Organisation’ under the auspices of the United Nations needs to be established. It should aim to produce a binding international framework on socially and environmentally sound progressive taxation systems.<sup>73</sup> An immediate measure needed to guard against tax evasion is forcing transnational companies to publish a country-by-country breakdown of their profits and losses and taxes paid. This proposal is gradually gaining support, but has not gained critical mass.<sup>74</sup> Country-by-country reporting would allow tax authorities and the public to spot where tax evasion might be taking place.<sup>75</sup> The G20 should require the OECD to report on this issue by early 2010 and set a deadline for appropriate follow-up action by the International Accounting Standards Board.

The international financial institutions should also allow countries to use appropriate capital control measures to help guard against contagion and volatility. On the repatriation of stolen wealth, international efforts have been too slow. Six donor countries have pledged a total of US\$6.3 million over two years to help fund the work of the World Bank’s Stolen Asset Recovery Initiative (StAR).<sup>76</sup> This can be compared to the US\$500 billion in new loan resources to the IMF and an extra US\$250 billion in trade credits agreed by the G20 in April.

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<sup>69</sup> G20 London Summit communiqué, April 2009:

<http://www.londonsummit.gov.uk/resources/en/news/15766232/communique-020409>

<sup>70</sup> In 2008, there were for example only four claims by the USA to Jersey to provide information. Tax Information Exchange Agreements, Tax Justice Network, May 2009. See:

<http://taxjustice.blogspot.com/2009/06/briefing-paper-tax-information-exchange.html>

<sup>71</sup> See EURODAD, Monaco tax haven whitewash denounced, September 2009. At:

<http://www.eurodad.org/blog/index.aspx?id=3829&blogid=1758>

<sup>72</sup> G20 Ministerial and Governors meeting, 4-5 September 2009, unpublished.

<sup>73</sup> See EURODAD, European NGOs launched a position paper on the financial crisis and capital flight, debt and IFIs, March 2009: <http://www.eurodad.org/whatsnew/articles.aspx?id=3458>

<sup>74</sup> UK Ministers have, for example spoken out in favour of country-by-country reporting. See

<http://www.guardian.co.uk/business/2009/jun/15/uk-multinationals-tax-avoidance>

<sup>75</sup> See: Guide to the Big Tax Return, Christian Aid 2009: <http://www.christianaid.org.uk/ActNow/the-big-tax-return/background.aspx>

<sup>76</sup> World Bank, StAR progress Report, July 2009:

<http://siteresources.worldbank.org/EXTSARI/Resources/ProgressReport2009.pdf?resourceurlname=ProgressReport2009.pdf>

## *I. Responsible finance and debt arbitration*

Academic research has shown clearly that in the wake of serious financial crises, large increases in government debt are common. They are driven principally by the sharp drop in tax revenues and in some cases large surges in government expenditure to fight the recession.<sup>77</sup> These pressures significantly increase the risk of sovereign default. There will always be instances when countries – through no fault of their own – will be unable to meet their external debt service payments. There will also always be cases of alleged illegitimate debt. Yet there exists no international procedure for the fair, predictable and transparent resolution of sovereign debt difficulties and disputes over alleged illegitimate debt. Instead, there is a patchwork of ad hoc, creditor-designed and creditor-led initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative for multilateral debt cancellation and the Paris Club forum for bilateral debt cancellation. These measures have proven messy, lengthy, arbitrary and unpredictable.

The G20 has emphasised ‘flexibilisation’ of the World Bank/IMF debt sustainability framework. But analyses of countries’ capacities to repay external debt will always be subjective to some degree. External debt may be technically repayable but at what human cost?<sup>78</sup> Unfortunately, the Bank/Fund debt sustainability approach diverts attention from what needs to be done at the international level to improve – and make more just – international debt management procedures.

There should be a recognised and comprehensive debt work-out procedure at the international level to address repayment difficulties and disputes when they occur. EURODAD’s Charter on Responsible Finance sets out the case for this, recognising that there will always be cases where a dramatic change in circumstances – beyond the will of either borrower or lender – means that the borrower is no longer able to meet its financial obligations on some or all of its debts.<sup>79</sup> The Charter calls for a “fair and transparent arbitration procedure” (FTAP) at the international level to deal equitably and efficiently with sovereign debt difficulties in a comprehensive process. The key features include:

- a neutral decision-making body which arbitrates to determine which debts need to be declared null and void, and which need to be repaid;
- the rights of both debtor and creditor to be heard by arbitrators;
- protection of the basic human rights of the citizens of the debtor country;
- the institution of automatic stay and transparency of process and decisions.<sup>80</sup>

If policymakers genuinely fear renewed sovereign debt difficulties, it would appear especially urgent to re-open international discussions over a fair and transparent debt work-out procedure at the international level. The idea has been agreed in principle at successive UN Financing for Development summits. It is also being taken up by UNCTAD in a three year project on responsible lending and borrowing.<sup>81</sup> The Dutch Government recently presented a proposal for an “*independent and authoritative international organisation*” to arbitrate on debts contracted between sovereign states. This would be based at the Permanent Court of Arbitration in the

<sup>77</sup> Reinhart and Rogoff, *The Aftermath of Financial Crises*, December 2008: [http://www.economics.harvard.edu/files/faculty/51\\_Aftermath.pdf](http://www.economics.harvard.edu/files/faculty/51_Aftermath.pdf)

<sup>78</sup> EURODAD and many other civil society organisations advocate for a ‘human development’ approach to debt sustainability. This approach first assesses what governments need to spend in order to meet essential ‘basic’ human needs and assure the basic functioning of the state. Only then can an assessment be carried out as to how much a government can afford to reimburse in external debt service. See, EURODAD’s work on debt sustainability: <http://www.eurodad.org/debt/?id=118>

<sup>79</sup> EURODAD, *Responsible Financing Charter*, February 2008: <http://www.eurodad.org/debt/report.aspx?id=120&item=02060>

<sup>80</sup> See EURODAD, *Responsible Financing Charter*, February 2008 for further elaboration on proposals for a fair and transparent arbitration procedure: <http://www.eurodad.org/debt/report.aspx?id=120&item=02060>

<sup>81</sup> See UNCTAD for further information: <http://www.unctad.org/Templates/Page.asp?intItemID=4778&lang=1>

Hague. EURODAD urges other governments in the South and North to champion an international process on this issue which would aim – within a specified time-frame – to implement such a procedure at the international level. The discussions should be inclusive and fully involve civil society organisations as key stakeholders.

## ***J. Conclusion***

Developing countries are now victims of a global financial crisis not of their making. The crisis is affecting people across the world, but developing country citizens will suffer the most harm. A substantial slowdown in progress towards achievement of the Millennium Development Goals can be expected. Official lenders have quickly stepped forward with offers of new loans to help countries meet their shortfall in revenues. But this will store up significant liabilities for the near future and has only been justified by a hasty re-write of the World Bank and IMF's rules on debt sustainability.

The developed country response must be non debt-creating. The UN has reported that US\$348 billion will be needed to cover MDG costs in 2010.<sup>82</sup> More concessional finance is needed for the poorest countries and governments need to do far more to reach their minimum targets of 0.7% ODA/GNI. But as a rapid response measure, a temporary moratorium on debt service repayments would be a useful way to allow governments to maintain social spending and keep their economies afloat.

But finding appropriate levels and types of new funding must be complemented by decisive efforts to end tax evasion, curb capital flight and repatriate stolen wealth. These measures are vital to boost economic recovery and poverty reduction over the medium and long-term. The international community must introduce a full multilateral, automatic information exchange regime to help curb the illicit capital outflows from the poorest countries. Current efforts are half-hearted and do not go nearly far enough.

When countries run into sovereign debt difficulties or have serious allegations of illegitimate debt, they should have recourse to a fair and transparent arbitration procedure to find solutions in an impartial, predictable and efficient manner. The repercussions of the global economic downturn for developing countries are likely to be felt for several years so it is vital to reopen international discussions over such an instrument now.

Taken together, the measures proposed by EURODAD are far more likely to have a deeper and longer-term positive impact on developing countries. They will also signal a genuine commitment by developed countries to internationally agreed development targets, such as the Millennium Development Goals. EURODAD calls on developed country governments to:

- Implement a minimum two year moratorium – without interest – for all those countries which are currently off-track towards achievement of the MDGs. This temporary stop-gap measure will release much-needed extra funds for investments in poverty reduction and economic recovery;
- Change its approach to tax havens, replacing the current bilateral approach with a comprehensive multilateral, automatic, information exchange model;
- Introducing country-by-country reporting rules for transnational companies;
- Step-up international efforts to repatriate stolen wealth;
- Begin international negotiations to put in place a fair and transparent arbitration procedure to deal with sovereign debt difficulties and alleged illegitimate debt.

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<sup>82</sup> See Chapter 14, "A global breakthrough in trade" in UNDP (2005) Investing in Development: A Practical Plan to Achieve the Millennium Development Goals. Available at: [www.unmillenniumproject.org/documents/MainReportChapter17-lowres.pdf](http://www.unmillenniumproject.org/documents/MainReportChapter17-lowres.pdf)

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This discussion paper was produced with the financial support of the European Commission. The views presented in this paper do not necessarily represent the views of the Commission.