DON'T SET A NEW DEBT TRAP

CAMPAIGN GUIDE

JUBILEE DEBT CAMPAIGN

THE PROBLEM

The global financial crisis of 2008 has led to a new boom in irresponsible lending in the developing world. This lending boom is threatening to set a new debt trap for people in poverty around the world, particularly in Africa, with governments unable to afford to pay off their debts and provide basic services like healthcare and education to their people.

Before the crisis, countries in the global South already depended on debt for a large share of their income, thanks to decades of tax dodging by foreign corporations and unjust trade rules which cut off other ways to fund public services. But since 2007, new loans to low income countries have tripled – climbing from $5.8 billion to $17.3 billion in 2013. As a result, countries like Ghana, Zambia and Tanzania are heading for a new debt trap, unless something is done to avert it.

The new lending boom is being driven by both public and private lenders. International lenders like the World Bank are leading the charge, with two-thirds of new loans coming from the Bank and other multilateral lenders since the financial crisis. While they have partly stepped in to fill the gap from falling trade and tourism during the financial crisis, they also have a vision of increasing the volume of lending to developing countries, supposedly to help them develop. In addition, with interest rates low in the rich world, private investors are hunting around for higher returns, and have begun to speculate on riskier loans to so-called 'emerging' economies. Since 2008 private lending to low income countries has more than doubled.

Just as happened across the global South in the 1970s and early 80s, the incentives for lenders to lend are as strong as those for borrowers to borrow, and the result is debt levels are ballooning. The previous era of irresponsible lending trapped countries in a spiral of debt from which it was impossible to escape. It set back the fight against global poverty by two decades. Irresponsible lending today threatens to turn back the clock.

FIGURE 1: New loans to low-income countries

FIGURE 2: Proportion of lending to low-income countries

Responsibility for excessive debt burdens is often placed exclusively on the borrower. But lenders too share responsibility for when debt levels become too high, and have the power to lend only what can afford to be repaid. Developing country governments should not have to choose between keeping their people alive and paying off foreign debts, either now or in the future.

> **"And to avoid another debt crisis hard on the heels of the first, poor countries need to be given more grants, rather than seeing their debt burdens piled even higher with yet more loans."**
>
> **Make Poverty History manifesto, 2005**

THE TRAP BEING SET

Over the last year, the IMF and World Bank have carried out Debt Sustainability Assessments on 43 developing countries. Our analysis of these reports has shown that a quarter of them are heading for a large increase in debt payments over the next decade, even under the IMF's optimistic predictions for high economic growth. But a realistic assessment must include a 'stress test' of these predictions. We looked at the impact if these countries experience either one economic shock (such as flooding, a disease outbreak, a drought or further global financial uncertainty), or if economic growth is lower than forecast. This shows that, in fact, two-thirds of all countries assessed could face large increases in debt payments.

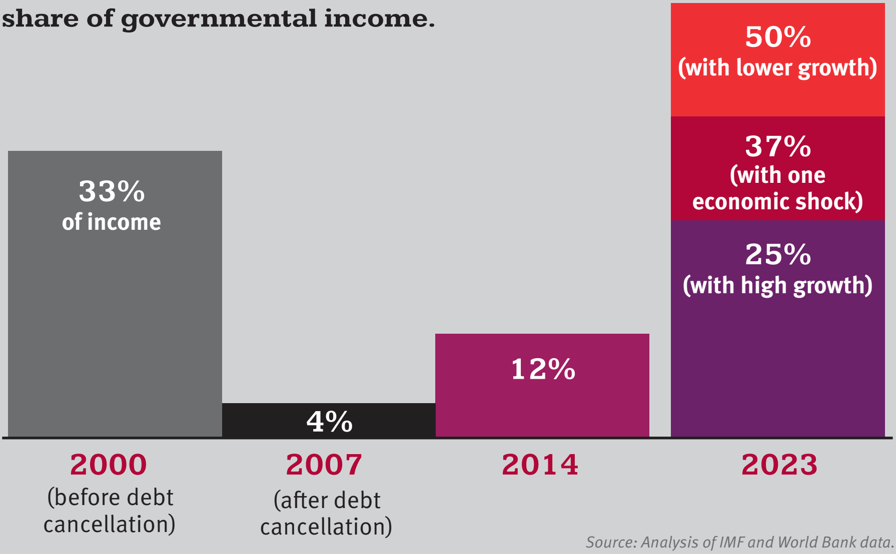
GHANA

More than 6 million of Ghana's 25 million population live in poverty, but debt cancellation in the 2000s fuelled a brief period of optimism. Ghana had $7.4 billion of debt cancelled in 2004 and 2005, and annual foreign debt payments fell from over 20% of government revenue to less than 5%. The proportion of children completing primary school increased from 7 out of 10 in the mid-2000s to almost 100% today.

However, the boom in lending to the West African country in recent years means the government's foreign debt payments are predicted to reach 20% of government revenue once again in ten years' time. Already, Ghana has been in talks with the IMF over a new bailout. In late February 2015, Ghana reached agreement with the IMF on loans of $310 million per year for 3 years, all of which will be used to meet debt payments to previous lenders, which are between $1.2 billion and $1.6 billion over the same time period.

Figure 3: Ghana's debt payments

Ghana's external debt payments as a share of governmental income.



Source: Analysis of IMF and World Bank data.

"Debt cancellation in the early 2000s gave Ghana a great relief, allowing us to dream again. However, the IMF and other external partners may have, alongside Ghana itself, become too complacent. Access to low-interest loans was taken away and the lack of tax revenues was neglected. Ghana is now falling back into the debt problem again to the detriment of the many poor Ghanaians who have to bear the hardship and pain of austerity measures."

Bernard Anaba, Integrated Social Development Centre, Ghana

HAITI

Haiti had debt relief in 2009. This was followed by further debt relief after the earthquake in 2010. However, the debt burden is increasing rapidly again today, with the IMF already projecting that payments will reach almost 15% of revenue in the next decade, above the level of payments in most years prior to debt relief.

SENEGAL

The impact of a spike in debt payments is that less money will be available for health and education spending. Senegal is already on track for an increase in debt payments equivalent to a 7% cut in health and education spending by the end of the decade. With one economic shock, it will be 13%. With lower than predicted growth, it will be 29%.

ZAMBIA

With 11 million people in poverty (85% of the population), Zambia has begun borrowing at higher levels again since debt cancellation in 2005. The IMF predicts that debt payments will double from 7% of government revenue today to 14% in the next decade. However, this is based on the economy growing by 6% a year; if growth is lower, debt payments could go over 30% of government revenue. Meanwhile, as ActionAid research has shown, big companies like Associated British Foods (owners of Silverspoon Sugar, Twinings tea and many more) dodge millions in taxes on their operations in Zambia. Between 2007 and 2012, a company called Zambia Sugar that is owned by Associated British Foods paid "virtually no" corporation tax in Zambia despite making profits of $123 million.

Last time, debt crisis meant the number of people who were undernourished doubled, from 3 million to 6 million. And without fair international rules for dealing with debt crisis, vulture funds were able to swoop for $15 million in payment on old debts following debt cancellation in 2007.

THE SOLUTION

We're calling for the UK government to adopt three key policies to avert a new developing world debt crisis:

1. Grants not loans

The UK government gives £11.4 billion a year of aid, £6.7 billion directly and £4.7 billion via international institutions like the EU and World Bank. At the moment, direct UK aid is provided in the form of grants, not loans, but there have been calls for this to change – the UK should hold firm.

Of the aid given through international institutions, £1.8 billion is ultimately given as loans, 15% of overall UK aid. The World Bank is the major international institution that delivers UK aid. It gives 77% of its aid to the most impoverished countries in the form of loans, and is the primary lender pushing developing countries towards a new debt crisis, responsible for $9.8 billion of new lending in 2013. The UK gives more aid money to the World Bank than any other country, so it is in a powerful position to argue for change.

2. Tax justice

Developing country governments would not be so reliant on debt and aid if they were able to boost their income through progressive tax policies. But they are currently losing three times as much to tax havens as they get in overseas aid. UK tax laws currently encourage big companies to avoid paying tax in the developing world – this must change.

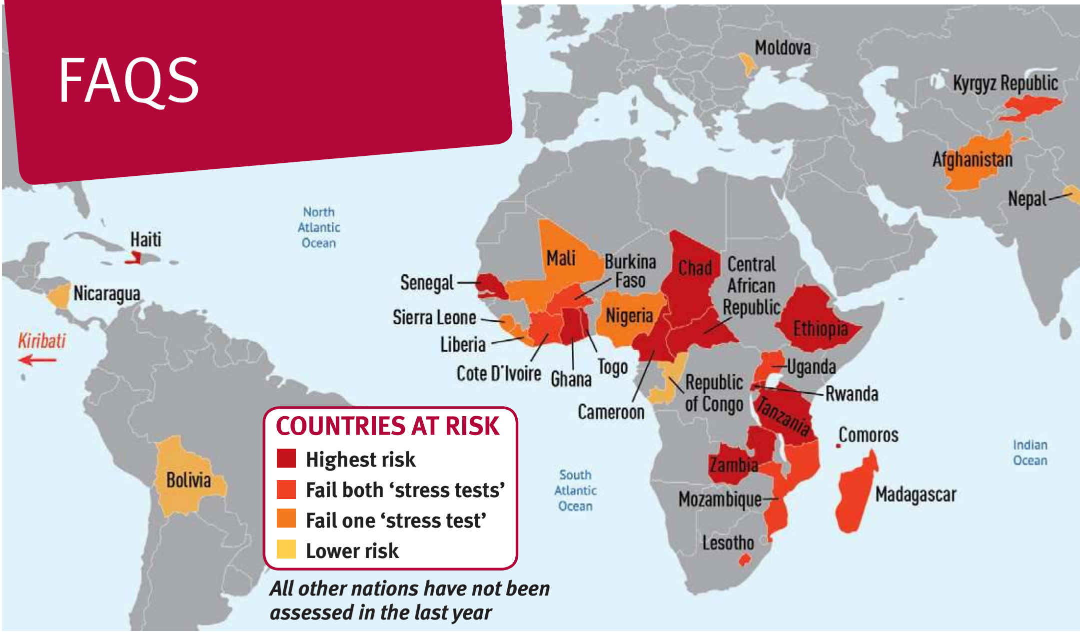
3. Fair global debt rules

Unlike with companies and individuals, there is currently no 'bankruptcy' court for countries. As a result, debt crises from the Third World to Argentina to Greece have had chaotic results, with banks holding lender governments to ransom for bailouts, vulture funds swooping in to profiteer, and rich countries dictating terms to indebted countries. The UK government must support the United Nations' work to establish a fair and independent legal framework for resolving government debt problems, so that private and public lenders alike know they will lose money if they lend recklessly.

TAKE ACTION

For the latest campaign actions on our No New Debt Crisis campaign, see our website at **www.jubileedebt.org.uk**

FAQS



Q Which countries are most at risk?

A Our research has shown that two-thirds of the 43 countries assessed by the World Bank and IMF in the last year face a large spike in debt payments in the coming decade. Of these, 14 countries already have or are heading for unsustainable debts under the IMF's own flawed criteria: Bhutan, Cameroon, Central African Republic, Chad, Comoros, Ethiopia, Ghana, Haiti, Marshall Islands, Rwanda, Senegal, Tanzania, Togo and Zambia. A further 11 do not pass two 'stress tests' on their debt levels over the next decade either after an economic shock or an economic downturn: Burkina Faso, Cote d'Ivoire, Kiribati, Kyrgyz Republic, Lesotho, Madagascar, Mongolia, Mozambique, Timor-Leste, Tonga and Uganda. A more credible, and neutral, debt sustainability test than that applied by the IMF and World Bank is urgently needed for all countries.

Q How can a loan count as aid? Don't you have to give the money for it to be 'aid'?

A Many people would understand 'aid' to mean rich countries giving money to countries in the global South. Yet a growing proportion of what is counted as 'aid' is not aid at all, but loans, meaning that rich countries aren't giving the money but lending it. Under current rules, the whole of a loan can be counted as aid if interest rates are 2.8%-4.4% or less (depending on the type of country being lent to). Donors argue that so-called 'concessional' lending, at lower interest rates than countries could borrow at on the private markets, is effectively aid, and should

be counted as such. Given the rich world's history of empire and exploitation in the global South, many campaigners argue that 'aid' should not be called aid at all, but should instead be considered 'reparations' for this legacy of theft and suffering.

Q The UK gives grants not loans for its direct aid. Is it really a major contributor to the problem?

A The UK does not currently give bilateral loans, but it does make large aid contributions to multilateral institutions like the World Bank and African Development Bank, which are then given as aid. Our recent analysis of aid figures found that in 2013, the latest year with figures available, 15% of UK aid was ultimately given as loans, £1.8 billion.

Q Why do the IMF and World Bank think the levels of debt are sustainable?

A The IMF and World Bank conduct regular Debt Sustainability Assessments for developing countries, but these assessments are flawed. They only take into account whether or not a government is able to keep making debt payments, not what the impact of those payments will be on the people of the country concerned. Debts can continue to be paid at huge cost to the provision of and access to essential public services, but still be defined as 'sustainable'.

Ultimately, these are western institutions run in the interests of lenders, and their primary concern is that debts continue to be paid, not that they can be afforded without a terrible human cost. There is urgent need for credible debt sustainability assessments to be carried out on all countries, but these should be conducted by an independent agency like the United Nations.

In addition, Debt Sustainability Assessments don't include private sector debts, which are often the source of financial crises which lead to public debt crisis – from the East Asian crisis of the late 1990s to the Eurozone crisis of today. Nor do they include public-private partnerships – this is borrowing in the form of long-term contracts with private companies to supply public services. These contracts do not have to be included on the government's balance sheet, meaning they create hidden public debt.

Q **Why would private lenders lend to developing countries if there's a chance they won't get their money back?**

A One of the main reasons is the expectation that they will be bailed out if things go wrong. Also, as they are not getting much interest in Western markets, they are willing to take bigger risks in return for better rates. This means they can borrow at low rates in the West and then lend on to developing countries at a profit.

Q **If the IMF and World Bank just stopped lending, what would happen? Wouldn't governments have to borrow from somewhere else?**

A It is true that developing nations would be likely to need to borrow from somewhere else in the absence of tax justice and fair trade rules. Indeed, many African countries have already been borrowing heavily from China in recent years, and this development may explain the motivation for western controlled institutions in re-establishing a lender-borrower relationship with these countries.

Borrowing on the private markets would be more expensive, but that might act as a deterrent, and a motor for enhanced tax collection. Of course, IMF and World Bank conditions attached to aid, loans and debt relief often already involve promoting economic policies – including tax policies – which are favourable for 'foreign investment'. In practice this often means low taxes and privatisation. So removing this relationship may have wider benefits.

Q **Don't developing country governments need to take responsibility for their borrowing?**

A Yes, they share responsibility with lenders. We work closely with civil society groups in the global South who scrutinize their governments' borrowing. However, they often find it very difficult to hold their governments to account for their borrowing because the terms of the loans – such as the duration, and the rate of interest, and the intended use in the case of loans for specific projects – are rarely made public in advance of being signed, and often are not voted on by parliaments. This is the case with the World Bank and IMF as well as UK government departments like UK Export Finance. Lenders can facilitate this process by committing to these accountability standards themselves.

Q **Can't the IMF and World Bank wait until there's an economic shock then offer debt relief if required?**

A The IMF's Post-Catastrophe Debt Relief Trust was set up after the Haitian earthquake in 2010, but only after sustained campaigning by the Jubilee movement. In subsequent years it was considered that the Pakistan floods and the Philippines typhoon were 'not enough of a catastrophe' for the fund to be used. After further campaigning, the definition has been broadened for the Ebola outbreak of 2014 and $100 million of debt cancelled for Liberia, Guinea and Sierra Leone. But there is institutional resistance to such debt relief every time, and it is much better to lend responsibly in the first place.

In addition, not tackling the problem of excessive lending means there are no incentives in place to stop a private sector lending bubble which will require the IMF to step in.

Q Are you therefore against deficit spending by developing countries?

A No. Deficits – where governments spend more than they receive in income – can be useful, particularly borrowing to pay for useful investments, or to cope with a sudden loss of income or economic crisis. Our broad concern is that at the moment there is an excessive amount of lending which replicates conditions which created the devastating debt crises of the 1980s and 1990s.

More specifically, currently loans still tend to follow a pattern of being given when an economy is doing well. This enhances the boom, and makes the subsequent bust worse. In reality the opposite should happen; there should be less lending when economies are doing well.

Moreover, there are different kinds of debt. Borrowing from outside a country can be particularly dangerous because it is more likely to suddenly stop, it means payments leave the country and the relative size of the debt can rapidly increase if a country's exchange rate falls. An alternative is for a government to borrow within a country. This is much safer, and some governments have begun to increase this type of borrowing, although at the moment interest rates on the debt tend to be very high.

Finally, the more governments are enabled to increase their tax revenue, the less dependent they will be on borrowing. Ultimately tackling poverty and providing good and useful jobs requires countries being able to use the resources they already have, rather than being dependent on loans and grants from others. Jubilee Debt Campaign research with Health Poverty Action in 2014 found that sub-Saharan Africa receives $134 billion in loans, grants and other forms of finance each year, but loses $192 billion through things such as debt payments, profits taken out by multinational companies and tax dodging.

JUBILEE DEBT CAMPAIGN

is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system which puts people first.

Jubilee Debt Campaign
The Grayston Centre
28 Charles Square
London N1 6HT

020 7324 4722

info@jubileedebt.org.uk

www.jubileedebt.org.uk

Jubilee Debt Campaign

@dropthedebt

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ALL WE CAN Methodist relief and development

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