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CHAPTER 5 on EXTERNAL DEBT

The Monterrey Consensus and the Millennium Declaration have stressed the urgent need to “comprehensively address debt problems of developing countries.” Debt relief and debt cancellation initiatives, however, have fallen very short of the requirements for achieving human development goals and social justice that the UN has committed to.

We offer these inputs in light of the agreed text of the Monterrey Consensus, as well as in response to new opportunities and challenges that have emerged in the five years since Monterrey

**1. WE CALL FOR THE DELINKING DEBT and DEBT CANCELLATION FROM
CONDITIONALITIES**

Policy conditionalities that accompany debt relief and debt cancellation programs such HIPC have had negative effects on women, on the impoverished and marginalized, on livelihood and economies, and on the environment. The impacts of these conditionalities negate the positive outcomes of debt cancellation.

For instance, recent studies on a number of countries point out that IMF conditions for tight monetary policies have resulted in vastly reduced allocation of funds freed up from debt cancellation for spending on social services.

Debt cancellation must be de-linked from conditionalities. Loans and access to credit should no longer be used as leverage to compel borrowing governments to implement policy conditions or prescriptions of lenders.

At same time financial transactions and relations should recognize and uphold the shared responsibility and obligations of all governments for fiscal transparency and accountability. Financial transactions should also be consistent with the obligation of all states to protect human rights, ensure gender equality and women’s empowerment, and promote environmental sustainability.

**2. WE CALL FOR THE EXPANSION and DEEPENING OF DEBT CANCELLATION, and FOR
REDEFINING THE DEBT SUSTAINABILITY FRAMEWORK**

Notwithstanding the bilateral and multilateral debts that were cancelled under HIPC, MDRI and unilateral initiatives -- many countries are still suffering from the huge burden of debts and the impact of losing much needed resources to debt service. The combined implications of the food crisis, the climate crisis and the financial crisis further magnify the impacts of debt.

The Doha Conference provides an opportunity to commit to further expansion and deepening of debt cancellation.

Debt cancellation should not only all low income countries and also so-called “middle income” countries burdened with debt. There is a need to review and redefine the Debt Sustainability Framework that should involve not only national governments but also civil society. It must be a framework that gives centrality to human development goals and human rights, which includes gender equality and women’s empowerment.

Further, debt sustainability should not be seen as the sole basis for debt cancellation. This brings us to an issue that the Monterrey consensus did not address: odious and illegitimate debt.

3. WE URGE THE UN TO ADDRESS THE ISSUE OF ODIIOUS and ILLEGITIMATE DEBT

A significant development following the Monterrey Consensus has been the growing legal and political interest in and recognition of the concepts of odious and illegitimate debts.

The justification for the cancellation of Iraq's debt focused on the odiousness of the previous Iraqi government. More recently, Norway became the first Northern government to unilaterally cancel specific debt claims on the grounds that the credit in question was an example of "failed development policy," a key element in the conceptions of illegitimacy of debt.

Another core element in the conception of illegitimate debt is the principle of co-responsibility or shared between lenders and borrowers, a principle already affirmed in the Monterrey Consensus.

As new developments in external debt are considered, the issue of odious and illegitimate debt must surely be noted and addressed in Doha. Specifically, we urge that the UN initiate a political dialogue on the issue.

The concerns covered by illegitimate debt are crucial not only for furthering and firming up the bases for debt cancellation, but also for raising and addressing concerns covered within the framework of good governance and social justice.

One example of illegitimate and irresponsible practices is the Vulture Funds. Vulture funds, by compromising the benefits arising from debt relief, present a specific challenge, and undermine the promise of debt cancellation. We urge member countries to take concrete steps to change their laws so as to do away with the phenomena, to commit not to sell their claims on developing countries to vulture funds, and to give judicial and financial assistance to countries in case they are taken to court by vulture funds.

We also urge the UN to encourage and support comprehensive country debt audits. Comprehensive debt audits, both governmental as well as independent citizens' audits, are useful tools for not only for uncovering the impact of the debts and the nature of the debts. Audits can also address the structural and policy flaws that have led to the accumulation of unsustainable and illegitimate debt. The government of Ecuador is leading the way by launching the first official country debt audit process.

4. WE CALL ON THE UN TO DEVELOP A COMMON PLATFORM OR COVENANT FOR PRINCIPLED and RESPONSIBLE FINANCING

The international community has increasingly issued calls for more "responsible lending" in the past several years, including at G-8 summits, in the G-20, at the Organization for Economic Co-operation and Development (OECD), and in the United Nations General Assembly.

It is clear that we must tackle the problem of debt accumulation and re-accumulation in a forward-looking way that looks comprehensively at the process of borrowing and lending and locates these processes in the broader context and dynamics of the international financial system. We urge the UN to begin a process of developing a common platform or code, which should involve not only member states but also civil society organizations.

5. WE CALL FOR IMPARTIAL and TRANSPARENT PROCESSES TOWARDS RESOLVING DEBT DISPUTES

Existing arenas for addressing debt disputes are dominated by lenders, where they serve as both interested parties as well as judges. There must be a new forum to which debt disputes can be brought to, where parties are given equal treatment and judgements are based on impartial evaluation of cases.

This is not to deny the option of unilateral decisions to cancel debts, as in the case of the decision of the Norwegian government to cancel the debts of 5 countries, or to suspend or stop paying specific debts when proven odious or illegitimate.

6. WE URGE THAT MEASURES TO ADDRESS the FOOD and CLIMATE CRISES SHOULD NOT BE FINANCED THROUGH LOANS

The food crisis and the climate crisis render peoples of the South, and women who dominate the food sector more vulnerable to the accumulation of new loans.

Financing to address the food and climate crises should not be in the form loans. Governments should not offer or enter into loan-financing for seed purchases and other food and agriculture programs, or loan-financing of climate mitigation and adaptation mechanisms.

7. WE URGE THAT THE UN ADDRESS THE LINKAGES BETWEEN DEBT, TRADE and OTHER ISSUES

Other problems that cause the huge flow of resources OUT of developing countries should be addressed, as these contribute to increasing the debt burden, erode the benefits of debt cancellation and lead to the re-accumulation of debt. These include unfair trade agreements, tax holidays for multinational corporations, unregulated profit remittances and capital flows.