

## **Statement by Eurodad to the Roundtable on Middle Income Countries, Monday 14<sup>th</sup> April 2008**

The Monterrey Consensus of 2002 states very clearly that *“debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations.”*<sup>1</sup> In the run-up to the UN Financing for Development Summit in Doha in 2008, countries around the world have a unique opportunity to put these issues at the forefront and to debate seriously the proposals tabled in Eurodad’s Charter on Responsible Financing.

### **Intro**

I would like to raise the issue of responsible financing for all developing countries including MICS and draw your attention to Eurodad’s new Charter on Responsible Financing. The Charter sets out what are the essential components of a responsible and legitimate loan. It argues that all lenders and borrowers should be held accountable to the responsible financing standards outlined in this paper.

Eurodad – the European Network on Debt and Development – developed this charter and we are calling on the UN and member countries to hold an international debate on the improvements to development financing that are outlined in this charter. We would like the UN and member countries to sign up to the charter and the principles outlined within it.

### **Why Responsible Financing?**

I think it is clear why we are talking about responsible financing – the policy debate on debt has moved from cleaning up old debt to how to avoid new, irresponsible and unpayable debt in the future.

A key driver behind this is the emergence of new lenders in particular China. This has unsettled many ‘traditional’ donors and creditors who are arguing – rightly or not – that ‘new’ lenders will contribute to new rounds of unsustainable and irresponsible debt in developing countries. Concerns that we will face the same problems of debt distress in 5-10 years time. Justifiably or not, new lenders have been accused of not caring about environmental or social standards.

### **Current measures for dealing with debt problems are not sufficient**

The World Bank debt sustainability framework is being pitched as if it were a magic bullet, and creditor countries are signing up to it as if it were the perfect instrument for dealing with the problem. But this framework is simply not good enough. It is based on an economic assessment which just looks at the capacity to repay – it has no qualitative assessment of the loan – i.e. what the loan is being provided for.

Many of the loans of the past have been the result of defensive lending, lending for purely geo-political reasons, corruptly provided or invested loans or loans with grossly unfair terms. It is not surprising that many CSOs have described these debts as odious or illegitimate.

### **What are we proposing instead?**

Eurodad is proposing in its Charter a set of ex-ante and ex-post rules with equal application to both creditor and borrower. This is the only way to enforce/ reward responsible behaviour. (They show that there are certain fundamental values that both parties to a contract must abide by and provide citizens –South and North – with

effective tools with which to hold governments, public institutions and lenders fully to account.)

### **What is in it?**

The terms of the Charter are grouped under five headings. The five headings and an example of one of the conditions under each heading are as follows:

The first section refers to the:

#### **Legal and financial terms and conditions:**

- **Fair interest rates and penalties policies** (reasonable and fair upper limit);

The second to:

#### **Transparency and accountability**

- Full public disclosure of information (press, radio, web etc.): Loan document should be available to citizens on request

The third grouping sets out provisions for:

#### **Protection of human rights and the environment**

- Loan must comply with **social, labour and environmental standards** as embodied in international agreements

The fourth addresses:

#### **Procurement**

- **Government procurement processes must be open and transparent:** loan must carry clear details of those carrying out any work

The fifth deals with:

#### **Repayment difficulties or disputes**

- **Fair and transparent arbitration procedure:** Loan document should provide for an independent and transparent arbitration procedure in cases of repayment difficulties or dispute

The Charter is available in English, French and Spanish on the Eurodad website.

[www.eurodad.org](http://www.eurodad.org)

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