The state of debt

Putting an end to 30 years of crisis

May 2012

Key facts

- In the 1950s and 1960s the number of governments defaulting on their debts averaged four every twenty years. Since the 1970s this has risen to four *every year*.
- 24 million people signed a petition calling for Third World Debts to be cancelled by the year 2000.
- Thirty-two countries have qualified for IMF and World Bank debt relief between 2000 and 2010. Their foreign debt payments have fallen from 20 per cent of government revenue in 1998 to less than 5 per cent in 2010.
- For countries qualifying for debt cancellation, primary school enrolment has increased from 63 per cent of children in 2000 to 83 per cent in 2010.
- The Philippines, El Salvador and Sri Lanka governments continue to spend a quarter of government revenue on foreign debt payments.
- The current First World Debt Crisis has led to debts in impoverished countries increasing. Their government foreign debt payments will increase by one-third over the next few years.
- The Mozambique, Ethiopia and Niger governments could be spending as much on foreign debt payments in a few years as they were before debt relief.
- The IMF and World Bank are responsible for 45 per cent of new loans to low income countries over the last five years.
- In half of low income countries, there are no figures on how much foreign debt is owed by private companies.
- Where figures do exist, private sector foreign debt payments in impoverished countries have increased from 4 per cent of export earnings in 2000 to 10 per cent in 2010. Private sector debt payments are now double those of the public sector.
- The nation of Georgia will spend a quarter of its earnings from exports on debt payments over the next few years. Two-thirds of this is debt payments by the private sector, rather than the government.

Contents

1. Executive summary and introduction 5

2. Thirty years of global debt crises 9
- 2.1 A quick tour of debt crises 9
- 2.2 What is debt for? Is debt good or bad? 11

3. Debt cancellation and its consequences 12
- 3.1 Jubilee and the Heavily Indebted Poor Countries (HIPC) initiative 12
- 3.2 The fall in government debt payments 13
- 3.3 Rising government expenditure in the 2000s 19

4. Continued vulnerability and rising debt 21
- 4.1 Ever increasing global debts 21
- 4.2 The First World Debt Crisis and increased vulnerability 23
- 4.3 The lenders 26

5. The private borrowing and lending boom 29
- 5.1 Private debt and financial crisis 29
- 5.2 Investment versus speculation and looting 32
- 5.3 The state of private debt in impoverished countries 34
- 5.4 Private debt and financial flows into emerging markets 37

6. Regulating finance 38
- 6.1 Capital account regulation 38
- 6.2 Blocks to regulating finance 38
- 6.3 The need for international cooperation 39

7. Conclusion 40
- 7.1 Debt cancellation 40
- 7.2 Preventing debt crises 41
- 7.3 Enabling countries to use their own resources 42

Country case studies
1. Jamaica 17
2. Sri Lanka 18
3. Mozambique 20
4. Ethiopia 25
5. Georgia 36

Appendix 43

References 46

Glossary and explanation of terms

The **capital account** is a measure of all financial transactions by a country (its public and private sectors) with foreign individuals, companies, institutions and governments which creates future obligations. For example, lending money creates future obligations to repay the debt, with interest, so is recorded within the capital account. Similarly, a takeover of a domestic company by a foreign company creates a future obligation for profits to be sent to the foreign company.

The **current account** is a measure of all financial transactions by a country which do not create future obligations, such as exporting 100 cars for £1 million today. The current account includes all imports and exports of goods and services, as well as other transfers which do not affect the ownership of assets, such as grants, migrants sending money home, companies sending profits home and interest payments.

Together, the capital account and current account are known as the **balance of payments.** In theory, if a country's current account is in deficit, it is spending more than it is earning. This has to be paid for by borrowing or selling assets, creating future obligations to pay debts or send profits out of the country.

Foreign debt is debt owed by an entity (public of private sector) to an individual, company, institution of government in another country. It is also known as **external debt. Domestic debt** is the opposite; a debt owed to an individual, company, institution or government in the same country.

Government debt can be owed to private individuals and companies, other governments or international institutions such as the IMF and World Bank. Government debt can be either foreign or domestic. In this report, **private debt** is the foreign debt owed by the private sector, such as a domestic company owing a debt to a bank overseas.

Financial liberalisation is the removal of laws and regulations on the financial sector. It can also be known as **financial deregulation.** This report looks in particular on the removal of **capital account regulations;** laws and regulations which affect the movement of money between countries.

Gross Domestic Product (GDP) or **Gross National Income (GNI)** are measures of the income of a country as a whole for a particular time period, usually one year. An estimate is made of the price at which all final goods and services are consumed. It therefore only includes activities where something is bought or sold.

Illicit capital flight is the movement of money or assets out of a country without them being registered or monitored by authorities. This includes money being hidden in trade transactions within the same company, other forms of tax avoidance and evasion, and proceeds of crime and corruption.

Low, lower middle, upper middle and **high income** are World Bank classifications for how rich a country as a whole is. The classification of incomes is:

- Low income country: GNI is less than $1,005 per person, per year
- Lower middle income country: GNI is between $1,006 and $3,975 per person, per year
- Upper middle income country: GNI is between $3,976 and $12,275 per person, per year
- High income country: GNI is above $12,276 per person, per year

1. Executive summary and introduction

Thirty years of debt crisis have devastated livelihoods across the world. Debt cancellation finally released some countries from one debt trap, but the First World Debt Crisis shows yet again why reckless lending and borrowing need to be governed and controlled. The First World Debt Crisis has led to government debts in impoverished countries increasing, and unregulated opaque private lending also risks increasing inequality and crisis. We need a new system for monitoring and regulating the way money moves across the world, so that finance works for people.

Thirty years of global debt crises

It is thirty years since the 'Third World Debt Crisis' came to the world's attention when Mexico defaulted on its debts in August 1982. Over the following thirty years, people on all continents have suffered from a succession of devastating debt crises.

The original Third World Debt Crisis swept across much of Latin America and Africa. The results of governments making payments[i] on the huge debt, continued low commodity prices, and implementation of International Monetary Fund (IMF) and World Bank radical free market economic policies were disastrous, leading to one, and in some places two, 'lost decades' of development as poverty increased and economies contracted.

In the 1990s, Mexico faced another debt crisis. In the mid-1990s, borrowing by the private sector led to a crisis in much of East Asia, followed by Russia, Brazil and Turkey. And then another debt crisis in Argentina at the turn of the century. A worldwide boom through the 2000s came to an abrupt bust in 2007/08. The US and European debt crises began – the 'First World Debt Crisis' - and like crises before them, the response of bailing out banks and forcing austerity threatens to continue the pain for many years to come.

Yet these recurring debt crises are not inevitable, but the result of ideologically driven economic policies and mistakes. In the 1950s and 1960s, the number of governments which defaulted on their debts to foreign private creditors averaged four every twenty years. Since the 1970s this has risen to four every year.[1] The 'Bretton Woods System' from the late 1940s to early 1970s was a time of much greater government involvement in the economy, and specifically there were regulations on the movement of money – lending, speculation and investment – between countries.

A 2011 research paper for the Bank of England contrasts the current global financial system with the Bretton Woods System: *"The current system has coexisted, on average, with: slower, more volatile, global growth; more frequent economic downturns; higher inflation and inflation volatility, larger current account imbalances; and more frequent banking crises, currency crises and external defaults."*[2]

i. Throughout this report when referring to debt payments we mean all payments of interest and principal, ie, total debt service.

Debt cancellation and its consequences

From the 1990s, the global jubilee movement called for debt in impoverished countries to be cancelled and steps taken to prevent such high levels of debt being created again. 24 million people across the world signed a petition calling for debt cancellation by the year 2000. In response, the IMF and World Bank implemented a debt relief scheme known as the Heavily Indebted Poor Countries (HIPC) initiative.

HIPC was originally introduced to write-off some debt, so that the remainder would be 'payable' – regardless of the continuing cost in lost government revenue. Over time HIPC was enhanced. By 2005 significant amounts of debt were being cancelled.

Over the last decade thirty-two countries have qualified for debt relief through HIPC. HIPC has led to the debt payments of many countries being reduced, from an average[i] of 20 per cent of government revenue in 1998 to less than 5 per cent in 2010.[3] Public spending on activities defined by the IMF and World Bank as reducing poverty has increased, the IMF and World Bank estimate from 7 per cent of national income in 2000 to 9 per cent in 2009.[4]

But HIPC maintained the power of creditors to tell debtors what to do. To qualify for cancellation, countries had to implement economic conditions set by the IMF and World Bank, such as water privatisation in Tanzania, or selling off grain reserves ahead of a food crisis in Malawi.

Higher commodity prices and economic growth have also reduced the relative size of government debts. On average, relative debt payments in the most impoverished countries are now lower, but in some – especially some which have not had debt cancelled – they are still very high. Fifteen low and lower middle income countries which have not qualified for HIPC debt relief continue to spend more than 10 per cent of government revenue on foreign debt payments. The Philippines, El Salvador and Sri Lanka are amongst those spending a quarter of government revenue on foreign debt payments.

Continued vulnerability and rising debt

Globally, debt and other obligations owed between countries has increased dramatically over the last decade, seen in increasing current account deficits. Between 2001 and 2006 global surpluses and deficits increased from 3.1 per cent of GDP to 5.8 per cent of GDP.[5] For the 31 HIPC completion countries for which there is data,[6] only one had a current account surplus on average between 2001 and 2011; Bolivia. Of the other 30, 22 had a current account deficit of more than 5 per cent of their GDP over the decade. Such countries remain highly dependent on foreign finance, leaving them vulnerable to sudden changes in the global financial situation.

The creation of debts across borders, primarily within the private sector, contributed to causing the First World Debt Crisis over the last five years. Low and lower middle income countries have been negatively impacted by the crisis as income from exports fell, commodity prices have been extremely volatile, profit was taken out of countries by multinational companies, and earnings from migrants working overseas fell.

We calculate, based on IMF and World Bank predictions, that relative foreign debt payments for impoverished countries will increase by one-third over the next few years. Some impoverished country governments, such as Ethiopia, Mozambique and Niger, could be spending as much of their government revenue on foreign debt payments in a few years as they were before debt relief. According to the World Bank's own figures, the IMF and World Bank themselves account for 45 per cent of new lending to low income countries over the last five years.[7]

i. This and other such averages in this report are calculated as the mean, unweighted average.

The private borrowing and lending boom

The original Third World Debt Crisis was caused primarily by bank lending to governments. The HIPC process sought to address some of the legacy of this government owed foreign debt. However, lending and other transactions within the private sector can also create debt and financial crisis. Both the East Asian financial crisis in the mid-1990s, and the First World Debt Crisis of recent years, have been caused primarily by borrowing, lending and other transactions within the private sector, especially banks.

All debt – private and public – can be useful if it is genuine investment in activities which benefit society. However, debt can also be unproductive when it comes from speculation on assets which already exist. This still creates future obligations – in terms of debt payments or profits being taken out of the country – which make financial crises more likely and countries more vulnerable when they occur.

Very little attention has been paid to foreign debt owed by the private sector in impoverished countries. In half of low income countries there are no figures at all. For the half of low income countries which do report on privately owed foreign debt, average debt is over 15 per cent of GDP.[8] For low and lower middle income countries with data, the average debt payments of private sector owed debts has increased from 4 per cent of export earnings in 2000 to 10 per cent in 2010. This is now double foreign debt payments by the public sector.[9]

Whilst the growth of foreign debt owed by the private sector and other obligations in low income countries has been largely unmonitored and unreported, there has been much greater attention given to the financial flows into and out of emerging markets. One of the concerns in countries such as India and Brazil is that loose monetary policy in the US and UK – low interest rates and the creation of money through quantitative easing – have injected large amounts of money into the global financial system – some of which has been lent on to emerging markets because of the higher returns available. South Africa, India and Brazil have all asked for greater discussion of policies in countries which are the source of capital, in helping to globally regulate financial flows.[10]

Regulating finance

One of the features of the far more stable post-War financial system was that the movement of money between countries was regulated. Such regulations have been abolished in many countries over the last thirty years, under the ideology of capital account liberalisation, heavily pushed by western controlled institutions such as the IMF. But such regulations have continued to be used in some countries; notable examples of capital account regulations being used or reintroduced include Chile in the 1990s, Malaysia during the 1990s Asian Financial Crisis, Iceland since 2008 and Brazil since 2009.

Regulating lending and borrowing between countries involves specific policies to rein in money moving in and out of countries solely for speculation, whilst allowing countries access to lending which is genuinely necessary and useful. Using such policies is a pragmatic process, but to work best requires information sharing and cooperation between countries.

Conclusions

Debt cancellation

When debts are too high they need to be cancelled. People across Latin America and Africa suffered for many years from paying huge debts, and the radical free market policies which were implemented in the name of reducing debt. The debt cancellation of the last decade finally freed several countries from this trap. Yet other countries and peoples are still trying and failing to pay a debt burden which was first created thirty years ago. People across Europe today are suffering from austerity as debt payments flood out of the country, whilst economies collapse and the debt remains or grows worse. Moreover, now that HIPC is coming to an end there is no longer any mechanism for creditors to use to respond to debt crises in low income countries.

This report does not seek to produce a list of all the countries which should have their debt reduced. There is no one measure which can divide countries into those where debts are so large they need to be cut, and those which don't. Some debts should be written-off because they were odiously or illegitimately contracted – from loans to General Mobutu in the Congo, to a previous Irish government guaranteeing all reckless loans to the bankrupt Anglo-Irish Bank.

What is needed are processes for deciding when debts should be cancelled, and powers to make lenders – whether international institutions, governments or the private sector – comply. Campaigners across the world have advocated debt audits; a process which would publicly examine where the debt comes from to find out who did and did not benefit from loans. The public examination could lead to democratic cancellation or default on particular debts which were odious, illegitimate, or simply a result of reckless lending. Crucially, a debt audit can learn the lessons from past lending and borrowing, and empower civil society to hold a borrowing government to greater account in the future, and help prevent debts building-up again.

For many years debt campaigners have argued for a debt court; a fair and transparent arbitration mechanism to effectively allow sovereign states to seek debt cancellation when debts are too high. A court should be independent of debtors and creditors. States would be free to apply to the court, which hears evidence from participants including civil society. As soon as a state applies to the court, there would be a moratorium on debt payments. Loans found to be odious or illegitimate are written-off. The remaining debt is reduced to a level which is seen to allow a country to protect human rights and ensure the basic needs of its citizens are met. The possibility that reckless lenders would not get repaid should in turn make them more responsible in their lending.

Preventing debt crises

To reduce vulnerability and limit the number and impact of debt crises we need an international system for monitoring and regulating the way money moves across the world, so that finance works for people. Given the devastating succession of debt crises for the last three decades, preventing them from occurring should be top of the political agenda.

The world needs a system for regulating the movement of money across the world – not to prevent useful investment – but to limit speculation and prevent overly large debts and obligations and cycles of boom and bust. We do not have all the answers as to how this would work. But political will is needed to challenge the ideology that banks and financiers should always be able to move money where and when they like hidden from view. A global architecture is needed for monitoring and regulating finance as it moves between countries to prevent speculation, asset stripping, booms and busts, illicit capital flight and tax avoidance, and enhance genuinely useful long-term investment.

Creating this architecture first and foremost needs the political will. It will also need to unscramble the knot of regulations in favour of banks in international treaties which actually prevent governments from regulating financial markets.

Enabling countries to use their own resources

This report touches on many of the ways that relying on foreign loans and other finance can be negative. There is a role for genuinely productive loans and investment. But there is a greater role for people and governments to be able to use the resources they already have. This means mobilising domestic resources – collecting tax revenues and getting local capital invested within the country. This is an alternative to an over reliance on foreign finance which can lead to high debt and foreign obligations.

A time for jubilee

The global movement for debt justice was inspired by the ancient concept of jubilee, a time *every* 50 years when debts owed between people would be cancelled, fields left fallow, slaves released, and land returned to its original owner. This movement has led to billions of dollars of debt being cancelled.

But, despite these achievements, the cycle of debt crises has continued. A self-serving financial system has brought the global economy to its knees and impoverished people across the world continue paying the price for this excess. To bring justice, a true jubilee cannot just be a one-off cancellation of old debt – important as this is – but a continual process to prevent debt destroying lives, livelihoods and relationships. The financial system must be brought under control, so that it becomes a servant of people, not our master.

2. Thirty years of global debt crises

People on all continents have suffered from three decades of debt crises since Mexico announced it could not meet payments on government debt in August 1982. These recurring debt crises are not inevitable, but are the result of liberalisation which has allowed money to move rapidly around the world.

2.1 A quick tour of debt crises

In the 1970s restrictions on the creation and lending of money between countries were removed, after the US brought an end to the gold standard. The relaxation, coupled with large amounts of 'petrodollars' arriving in western banks due to the oil price spikes, led to a flood of lending, especially to governments in Latin America and Africa.

At the start of the 1980s the US Federal Reserve instigated a credit squeeze, which increased dollar interest rates, the currency most loans had been given in. This also reduced US imports and outward investment, increasing the dollar exchange rate against other currencies, and so increasing the relative size of debt payments in dollars. At the same time, the prices of many raw material commodities crashed, such as for cash crops, metals and minerals. These primary commodities were the main exports for many impoverished countries, and so selling them was one of the only ways countries could earn the resources to meet debt payments.

Mexico was the first in a long line of countries which were unable to pay their debts. But there was and remains no internationally agreed system to allow countries to go bankrupt and work out how to resolve their debt situations. Instead, governments could simply default on their debts; refuse to pay. This would have caused a crisis and bankruptcy for the western banks which had lent the money.

Instead, the IMF and World Bank bailed out the banks by giving new loans to governments, which were then used to pay the banks. In return, the IMF and World Bank insisted on governments following a set of 'free market' economic policies which became known as structural adjustment. These IMF and World Bank conditions included, for example, cuts in public spending, introduction of user fees for public services such as health and education, increases in sales taxes such as VAT, removal of taxes and regulations on imports, removal of regulations on money moving across borders, privatisation and removal of labour laws.

The results of governments making payments on the debt, continued low commodity prices, and implementation of IMF and World Bank economic policies, were disastrous. Between 1980 and 2000, economic 'growth' per person, per year was -0.5 per cent in Latin America, and -1.5 per cent in Africa.[11] Between 1980 and 1990 the number of people living in poverty in Latin America increased from 144 million to 211 million.[12] In Africa, the number of people living in extreme poverty (on less than $1.25 a day) increased from 205 million in 1981 to 330 million by 1993.[13] But, the debt was not reduced. Across Latin America and Africa, government foreign owed debt increased from 17 per cent of GDP in 1980 to 33 per cent in 1990.[14]

Jose Antonio Ocampo, the former Colombian minister of finance, says the response in the 1980s *"was an excellent way to deal with the US banking crisis, and an awful way to deal with the Latin American debt crisis"*.[15]

The debt crisis of the 1980s and 1990s became known as the Third World Debt Crisis. It has been followed by a succession of other debt and financial crises, partly caused by the debt or other foreign obligations owed by governments, private sectors, or both.

After the fall of the Soviet Union in 1989-1991, extreme and rapid free market policies were introduced across eastern Europe and central Asia. Economies collapsed, and large new debt burdens were created. Government foreign owed debt in developing countries in Europe and Central Asia increased from 13 per cent of GDP in 1991 to 35 per cent by 1999.[16]

In 1994 and 1995, Mexico suffered another external debt crisis following rapid removal of restrictions on share, currency and bond ownership by foreigners.[17] In 1996 and 1997 the East Asian financial crisis shook the world. Foreign lenders and speculators had lent or bought up many assets in countries such as South Korea, Thailand and Indonesia. When this money suddenly stopped and was taken out of the countries concerned, economies collapsed and poverty and unemployment increased. The boom and bust in money coming in and then leaving the country was repeated in Russia, Brazil and then Turkey. At the start of the new millennium the Argentinian government refused the IMF bailout option and defaulted on its debts.

Since 2007, the US and Europe have suffered from a 'First World Debt Crisis', which plunged the world economy into recession, and has caused huge unemployment in some western countries, along with increased inequality. The impact of the First World Debt Crisis is likely to last longer for many countries than that of the Great Depression in the 1930s.

Yet these recurring debt crises are not inevitable. In the 1950s and 1960s, the number of governments which defaulted on their debts to foreign private creditors averaged four every twenty years. Since the 1970s this has risen to four every year.[18] As Stephany Griffith-Jones, José Antonio Ocampo and Joseph Stigltz say; *"Financial crises are not new, and the growing financial market liberalization since the 1970s has led to a good number of them."*[19]

The period from the end of the Second World War to the early 1970s was when the Bretton Woods system of global economic governance was in use. It was created out of meetings in Bretton Woods, New Hampshire, in the closing years of the Second World War, with the aim of preventing the economic crises of the 1920s and 1930s.

The two key figures in the negotiations were John Maynard Keynes from the UK and Harry Dexter White from the US. Both were suspicious of the usefulness and importance of large quantities of money being lent between countries. Both agreed that there was a key difference between 'speculative' capital which sought to profit off assets which already existed, and genuinely 'productive' capital invested in new production.[20]

Keynes argued for a global economic system which would seek to prevent countries from being either large lenders or borrowers, thus maintaining stability, and preventing large foreign owed debts being created, whether by public or private sectors.

Keynes failed to get his system established; the US was the largest lending country at the time and not keen to be penalised for it. However, the Bretton Woods System still had large levels of intervention to prevent speculative movements of money across the world destabilising economies. Exchange rates between countries were fixed, but adjustable to allow for real changes in competitiveness, rather than speculative pressure. There was an extensive system of regulations on the movement of money across borders.

The Bretton Woods System came to an end through the 1970s. The US removed its support for the managed exchange-rate system and took the US dollar off the gold standard, allowing dollars to be more easily created. Countries began to abolish regulations on capital movements. For the next thirty years, the movement of money between countries continued to be liberalised.

In a research paper for the Bank of England, Bush, Farrant and Wright contrast the current global financial system with the Bretton Woods System which existed from 1948 to 1972. They find that *"The current system has coexisted, on average, with: slower, more volatile, global growth; more frequent economic downturns; higher inflation and inflation volatility, larger current account imbalances; and more frequent banking crises, currency crises and external defaults."* (See table below)[21]

The last thirty years of liberalisation have been more unstable and economic growth has been lower as well. This discredits those who argue for unregulated capital movements across the world; allowing money to move freely across the world is supposed to ensure investments go to where they are most useful and productive, thereby increasing growth. This however assumes that all flows of money are for productive investments – rather than the speculation Keynes and White warned of over sixty years ago.

Table 1. Bretton Woods v liberalisation[22]

	Bretton Woods (1948-1972)	Liberalisation (1973-2008)
Annual growth in world GDP per person	2.8%	1.8%
Current account surpluses and deficits	0.8% of world GDP	2.2% of world GDP
Banking crises	0.1 per year	2.6 per year
Currency crises	1.7 per year	3.7 per year
Government defaults on external debt	0.7 per year	1.3 per year

2.2 What is debt for? Is debt good or bad?

In the theory of how a capitalist economy works, debt is supposedly a good thing. Resources are borrowed now to be invested in something useful which increases how much can be produced. Theoretically this useful investment produces revenue, a part of which can be used to repay the debt, with more left over. The resources can be borrowed by and from governments or the private sector.

The theory starts to fall apart if the resources are not invested in something useful. For example, during the Cold War billions of dollars were lent by western governments and financial institutions such as the IMF and World Bank to the then Zaire (now Democratic Republic of Congo) government. Many of these resources were stolen by then dictator Mobutu, taken out of the country and stored in bank accounts in 'secrecy jurisdictions', otherwise known as tax havens. The money was not invested in useful activities which would allow the loans to be repaid. But for years the loans were paid by the Congolese people; a huge drain on their resources.

Recent research by Léonce Ndikumana and James K. Boyce from the University of Massachusetts finds that, between 1970 and 2008, for every $1 in foreign loans to sub-Saharan Africa, 60 cents left straight away in a process known as 'illicit capital flight'.[23] Illicit capital flight includes removing money hidden in trade transactions between the same multinational company, as well as funds from corruption or other measures of tax evasion or avoidance. One set of destinations for capital flight is secrecy jurisdictions such as the Cayman Islands, Luxembourg, Switzerland, the City of London or US State of Delaware.[24] The money has not been invested in the country it has been lent to, but the obligation to repay the loan remains.

Even if lending is invested in genuinely useful activities, problems can still be created if the project goes wrong, or is hit by a sudden change in circumstances. In the early 1980s many governments suddenly had large debts because interest rates were increased at the same time as prices for their country's commodities collapsed. Other countries – such as Sudan and Zimbabwe – first borrowed heavily to try to cope with large scale drought and floods which devastated local food production.[25]

A recent IMF and World Bank report states that in one-quarter of cases of what it defines as 'negative economic shocks' in low income countries, foreign owed debt has increased by 20 percentage points of GDP or more.[26] In the absence of grants to cope with the crisis, borrowing may prevent a far worse outcome, but the debt it creates can make a country more vulnerable into the future.

This report focuses on external debts and other obligations. An external debt is where payments are made to a foreign government, institution, company or individual. When foreign loans are given, they ultimately have to be either spent on paying for foreign goods – imports, or buying reserves or foreign assets (effectively lending the money back out of the country again). The revenue to pay foreign debts has to come from selling something to foreigners – exports of goods and services.

The Japanese government has one of the largest debts in the world; well over 200 per cent of GDP. But this debt is owed primarily to Japanese savers, so transfers resources within the country. Japan as a whole – government and the private sector – is a net lender to the rest of the world.

Debts owed to a resident of the same country – domestic debts - can still cause crisis within a country, but they do not cause an imbalance with the rest of the world. In theory, a national government has a lot more ability to deal with a debt problem solely caused by debt owed within its country, than when its country is dependent on lending and borrowing with others.

For example, private banks could lend excessively for people to buy houses in a country, pushing up prices, causing a 'bubble'. At some point the banks decide the houses are overvalued, and stop lending. People who had based their financial decisions on having high and increasing house prices lose confidence, stop spending and start trying to save and pay off their debts. There is now less 'demand' for goods and services in the economy, people consume less, and workers are laid off, leading to recession. To address this problem, the government can borrow from the savings being made by individuals, spend them, keep people in work, and prevent the recession. However, this 'Keynesian' solution to a debt crisis is a lot more complicated when the debts are owed between countries, rather than within them.

3. Debt cancellation and its consequences

The global demand for a jubilee finally led to significant amounts of debt for some countries being cancelled, though the IMF and World Bank scheme for doing so maintained the power of creditors to tell debtors what to do. Today, the relative burden of debt payments in impoverished countries is generally much lower than a decade ago. But several countries, mainly those not eligible for debt relief, still have high debt burdens.

3.1 Jubilee and the Heavily Indebted Poor Countries (HIPC) initiative

As outlined above, the Third World Debt Crisis of the 1980s and 1990s led to economic stagnation and increased poverty, but yet the debt remained for many countries. Resistance within countries to structural adjustment led to demands for reform or replacement of the IMF and World Bank, and for debts to be written-off or defaulted on.

In 1997, Jubilee 2000 was created in the UK, calling for a debt free start for 52 countries to mark the millennium. Across the world, 24 million people signed a petition calling for the debt to be cancelled, and steps taken to prevent such high levels of debt being created again.

The jubilee write-off did not happen. But in response to the global pressure, the IMF and World Bank were pushed into successively enhancing a scheme originally intended to ensure debts would keep being paid; the HIPC initiative.

HIPC was first created in 1996, though by 1999 just seven countries were eligible, only four had any debts reduced,[27] and even these still had very high debts. HIPC originally worked by setting a threshold of how much debt compared to exports was seen as payable. Countries over this threshold could enter the scheme, and have their debts reduced to the threshold. It effectively got rid of the literally unpayable debts, whilst maintaining high debt burdens. As Jean Louis Sarbib, World Bank Vice-President for Africa, said in March 1998: *"It's not really wiping off debt. It's just making sure that these countries can remain … good credit risks."*[28]

To qualify for the scheme, countries had to follow IMF and World Bank economic policies, which served to strengthen the power of creditors to tell the debtor countries what to do.

For example:

- Tanzania had to privatise the Dar es Salaam water system in 2003. Poor performance led it to being renationalised in 2005. In 2008 a UN tribunal found that water and sewerage services had deteriorated under privatisation and awarded £3 million in damages to the Tanzanian government, payable by the private water company.[29]
- Malawi had to privatise its agricultural marketing system, remove subsidies for inputs such as fertilisers and sell off some of the country's grain reserve. In 2001/02 and 2004/05 the country was hit by a food crisis with production falling and fewer grain reserves available. Since completing HIPC in 2006, Malawi has reintroduced fertiliser subsidies – against the wishes of the World Bank – and maize production has increased.[30]
- Zambia was not allowed to employ more healthcare workers, even when the Canadian government offered to foot the bill for five years, because it would have meant exceeding IMF spending limits.[31]

The threshold for how much debt a country needed to enter HIPC was subsequently lowered opening the scheme to more countries, and reducing debts further. In 2005 it was agreed that countries completing the HIPC scheme would have 100 per cent of their debt cancelled which was owed to the IMF, World Bank and African Development Bank, from loans prior to 2003/04; a scheme known as the 'Multilateral Debt Relief Initiative' (MDRI). However, the threshold to join the scheme remained the same; countries which in theory would have had large debts cancelled through MDRI could not join because their debt was 'sustainable'; ie, it could be paid.

The continual enhancement of debt relief seen under HIPC is likely to be a common feature of creditor led debt relief schemes. Creditors continually try to reduce just the debt which is obviously unpayable, before adverse conditions or pressure mean they have to go further.[i]

Thirty-two countries have trickled through the HIPC scheme over the last decade. Uganda was the first, qualifying in May 2000, and Togo and Guinea-Bissau the most recent, in December 2010. Ten countries could in theory still be eligible for the scheme, four of which have started the process.[ii] Many of the countries which have not yet joined the scheme are not making payments on most of the debts which would ultimately be cancelled (eg, Burma, Somalia, Sudan and Zimbabwe). For such countries, entering and completing HIPC would actually lead to debt payments increasing; the reason to do so would be for governments to be eligible to borrow – and lenders to lend – again.

In 2011, the IMF and World Bank closed the scheme to new entrants, saying that HIPC is *"coming to an end"*.[32] Except for the ten countries still eligible for HIPC, there is now no international system or process for dealing with a government debt crisis.

3.2 The fall in government debt payments

The relative size of government foreign-owed debts has fallen for many impoverished countries in recent years, though debts are still high in some, especially several which have not had debt cancellation. This has led to the debt payments of many countries being reduced, and public spending on other activities increased. Higher commodity prices and economic growth have also reduced the relative size of government debts.

Thirty-two countries have had $120 billion of debt cancelled through the HIPC initiative and MDRI (A list of the countries is in the Appendix).[33] However, this may not be that significant; debts can just be a number on paper which are not actually being paid. A better measure of its impact is how much is being spent on paying debts before and after cancellation.

Some countries actually saw their debt payments increase by joining HIPC. The Democratic Republic of Congo was in default on its debts through much of the 1990s until starting the process of joining HIPC in 2002, and was paying nothing. To join HIPC the government had to start making payments, which averaged 20 per cent of government revenue from 2002 until finally completing HIPC in 2010.[34]

Overall, debt payments by countries which have had debt cancelled have fallen. Debt payments have on average fallen significantly for those countries which have completed HIPC, from 20 per cent of government revenue in 1998 to less than 5 per cent in 2010.[35] Debt payments for other low and lower middle income countries have also fallen, though not by as much. In 2009, foreign debt payments equalled 9 per cent of government revenue for impoverished countries not included in, or which have not completed, the HIPC scheme (see Graph 1. below). The IMF and World Bank calculate that debt payments for HIPCs have fallen from over 4 per cent of national income in 2000 to 1 per cent of national income in 2009.[36]

i. Another example is Greece's debt over recent years. In 2010 Greece's private creditors first began to be bailed out with IMF and EU loans. Economic performance was less than predicted under the bailout scheme, so in 2011 creditors decided Greece was still unable to pay all its debts; a 20 per cent reduction in debt owed to the private sector was agreed. The same process took place later in 2011, and the private sector reduction was increased to around a 75 per cent reduction. However, the remaining debt is still only considered payable if very optimistic growth and export targets are met. If not, a further round of not-enough debt relief is likely to take place. In the meantime, bailout loans from the IMF and EU mean the debt is increasingly transferred away from being owed to the original reckless private lenders, and to public institutions.

ii. Chad, Cote d'Ivoire, Comoros and Guinea have started the HIPC initiative. Cote d'Ivoire and Guinea are currently expected to complete HIPC and get significant amounts of debt cancelled within the next year. Eritrea, Somalia, Sudan and Nepal are eligible to join but have not, and the Nepalese government has said it does not want to. In theory, Zimbabwe and Burma could be evaluated to be eligible, though this has not happened yet.

Graph 1. Foreign debt payments as a per cent of government revenue[37]

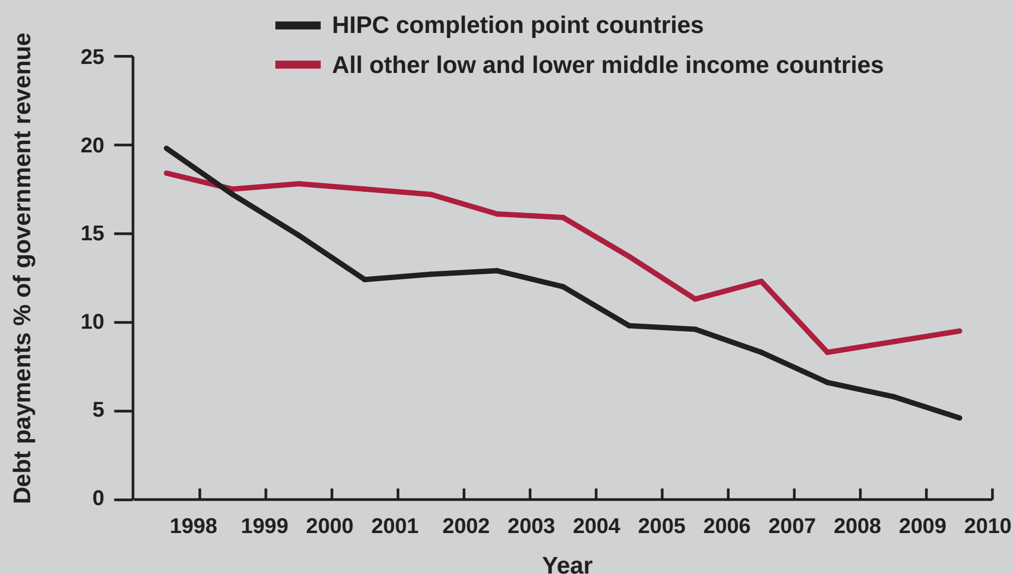


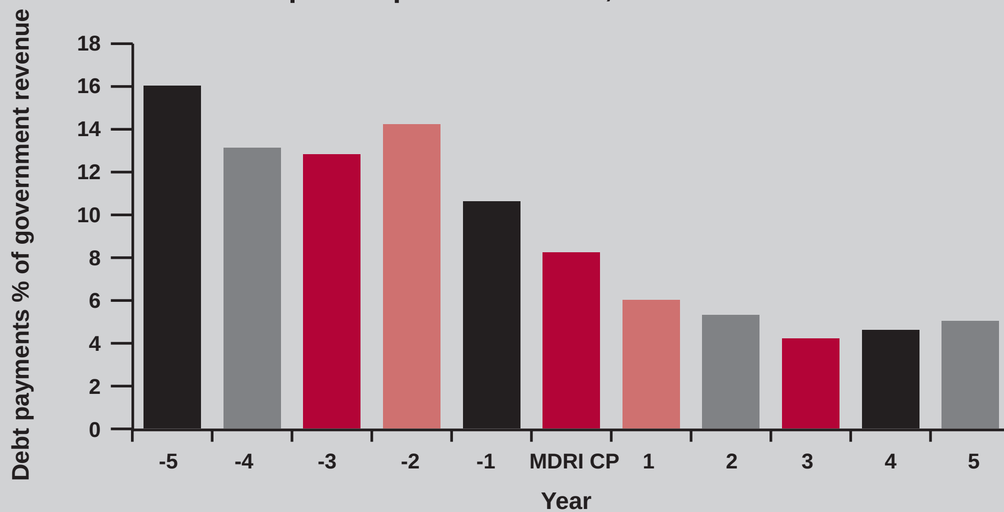
Table 2. Low and lower middle income countries spending more than 10% of government revenue on foreign debt payments

	2000	2010	Number in 2010 as % of 2000
Countries qualified for debt cancellation through HIPC	30	2	7%
Other impoverished countries	36	14	40%

The impact of HIPC can be seen more dramatically if looking at debt payments before and after a country has qualified for debt cancellation. However, this is complicated by the fact that those countries which had debts cancelled earlier on qualified twice, firstly for HIPC, then MDRI when it was agreed in 2005. If for simplicity, debt cancellation for such countries is seen as taking place in 2005, then on average debt payments fell from 10 per cent of government revenue the year before qualifying for cancellation, to 6 per cent of government revenue the year after (see Graph 2. below). In reality, for some countries, some debt relief took place earlier than this.

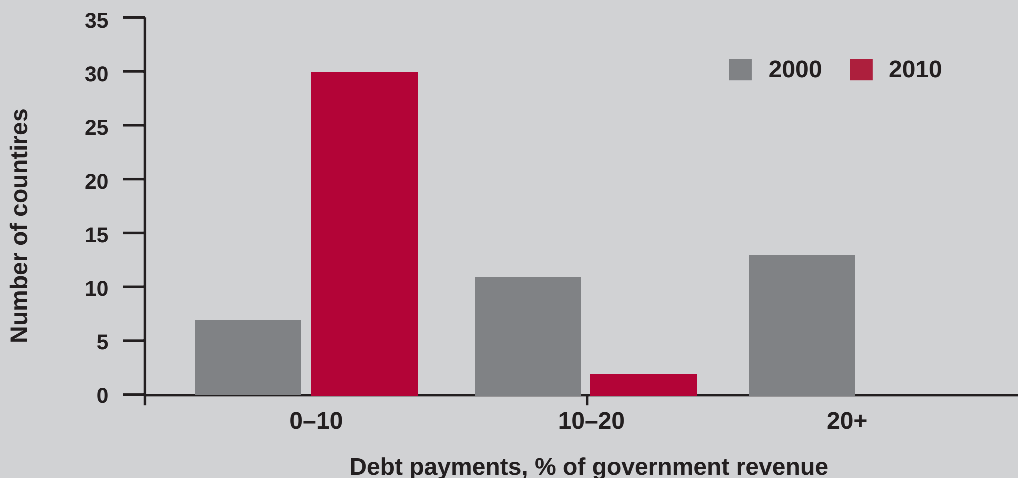
However, mean averages can give a very poor view of what is happening at the country level. For countries which have completed HIPC, in 2000 there were 30 spending more than 10 per cent of government revenue on foreign debt payments. In 2010 there were just two: Gambia and Togo (Togo only qualified for cancellation in 2010; its debt payments should have fallen since).

Graph 2. **Debt payments as a percentage of government revenue for HIPC completion point countries, before and after cancellation**[38]



[Mean average of 32 HIPC completion point countries. For those which have qualified for debt cancellation in recent years, the values for payments in years after cancellation are from IMF and World Bank predictions].

Graph 3. **HIPC completion point countries debt payments as a percentage of government revenue, 2000 and 2010**[39]



For non-HIPC impoverished countries there are still 14 spending more than 10 per cent of government revenue on foreign debt payments, down from 36 in 2000. Whilst debt payments have generally been falling for most impoverished countries, they have fallen more for those which have had debts cancelled. Moreover, the low and lower middle income countries with the largest debt burdens today are those which have not qualified for debt cancellation.[i] The Philippines, El Salvador and Sri Lanka governments continue to spend a quarter of government revenue on foreign debt payments.

i. Upper middle income countries are not covered because of research capacity, not because they cannot be highly indebted to the detriment of tackling poverty and inequality. The debt problems of one upper middle income country – Jamaica – are set out below.

Graph 4. Low and lower middle income countries which have not qualified for debt cancellation through HIPC, debt payments as a per cent of government revenue, 2000 and 2010[40]

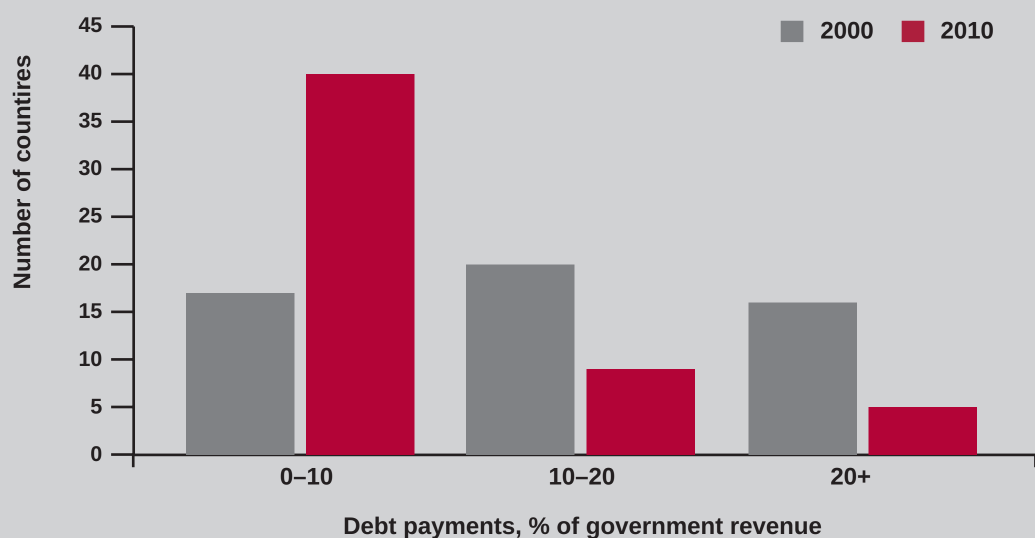


Table 3. Low and lower middle income governments with the highest foreign debt payment burdens today[41]

	Debt payments today (% of government revenue)[42]
1. Belize	28.1
2. Philippines	27.1
3. Bhutan	26.6
4. El Salvador	25.8
5. Sri Lanka	24.1
6. St Vincent	18.6
7. St Lucia	18.1
8. Angola	17.1
9. Maldives	14.4
10. Gambia[i]	13.9
11. Paraguay	13.3
12. Guatemala	12.7
13. Indonesia	11.9
14. Laos	11.5
15. Pakistan	10.5

i. Gambia qualified for HIPC and MDRI debt cancellation in 2007, but only had half of its debt cancelled.

Country case study 1: Jamaica

The people of the Caribbean island of Jamaica have suffered from the burden of debt for 35 years.

At independence, the country inherited a legacy of dependence on exporting cash crops such as sugar, coffee and cocoa. As an oil importer, in 1973 the economy crashed due to the oil price shock, rapidly pushing up the costs of imports. Recession, devaluation due to the high oil price and the need to borrow to purchase vital imports rapidly increased the government's foreign debt. When US dollar interest rates rose at the start of the 1980s, debt payments shot up; from 16 per cent of government revenue in 1977 to 40 per cent by 1984. Foreign debt payments have remained above 20 per cent of government revenue ever since.

The IMF and World Bank began lending large amounts of structural adjustment bailout loans in the 1980s, with the consequent austerity. For example, through the 1980s, the number of registered nurses fell by 60 per cent. The most drastic adjustment took place under the programme in 1989-1993, with large increases in inequality and poverty following financial liberalisation in 1991.[43] Since 1990, the percentage of children completing primary school has continually fallen, from 95 per cent in 1990 to 73 per cent in 2010.[44]

In the 1990s, government debt had begun to fall, but in the mid-to-late 1990s a private banking crisis ensued, and government debt increased again through bank bailouts and the costs of recession. Through the 2000s the economy grew by an average of just over 1 per cent a year, before entering recession again in 2008 due to the First World Debt Crisis.

Jamaica was never considered eligible for the HIPC initiative. With GDP per person of around $6,500 (£4,000) it is considered an 'upper middle-income' country, and so far 'too rich' for debt relief. Yet the country is likely to fail to meet several of the Millennium Development Goals. For example, the under-five mortality rate has only been reduced by 14 per cent since 1990, the goal is to cut it by two-thirds by 2015.[45]

Since the most recent financial crisis began, Jamaica's debt has increased by one-third. In 2011/12, a quarter of government revenue was spent on foreign debt payments.[46] In 2010, Jamaica went on an IMF programme again, borrowing $850 million from 2010 to 2012. One of the IMF's conditions was wage freezes for public sector workers in 2010 and 2011, which given inflation, amounted to a 20 per cent real terms cut.

Debt cancellation is clearly not the only reason for debt payments falling in impoverished countries. Economic growth has been higher, government revenue has increased and many countries have benefited from higher prices for some of their key export commodities (though debt cancellation itself would be expected to boost economic growth if it led to genuine savings).These effects have made government debt payments relatively less by increasing the size of the economy, exports and government revenue. They may also have enabled governments to pay off debts and borrow less. In Latin America in the 2000s, government revenues from commodity exports accounted for as much as 50 per cent of the total increase in government revenue.[47]

Akyüz argues that for many Latin American and African countries, higher economic growth has come from higher prices for commodity exports and higher capital inflows, rather than domestically generated increases in production. Therefore, *"gaining greater autonomy and achieving rapid and stable growth depend on their success in reducing reliance on capital flows and commodity earnings"*.[48] Or to put it another way, many developing countries are vulnerable to large sudden falls in capital flows and commodity prices, because growth is dependent on these external factors, rather than internal dynamics.

Country case study 2: Sri Lanka

In February 2012, the Sri Lankan press reported that the country is borrowing $600 million in order to meet old payments of both debt principal and interest.[49]

Sri Lanka is one of the most indebted countries in the global South. The government is thought to be spending the equivalent of 25 per cent of government revenue on debt payments in 2012.[50] If so, this would be the most the South Asian country has spent since at least 1990.[51]

Like many Southern countries, Sri Lanka's large debt was first created in the late 1970s. The debt grew through the 1980s. During the 1990s, 15-20 per cent of government revenue was spent on foreign debt payments. Despite this, the country was not included in the HIPC initiative because the debt was considered 'sustainable'.

In the IMF and World Bank's terms, the debt has continued to be sustainable because it has been paid. Following the devastating tsunami at the end of 2005, the Paris Club group of rich country creditors agreed a one-year freeze on debt payments to rich country governments, but no debt was cancelled (though the UK government argued some should be),[52] and payments resumed in 2006. Whilst total foreign debt owed by the government fell from its peak of 60 per cent of national income around 1990 to 30 per cent in 2008, debt payments have consistently stayed in the range of 15-20 per cent of government revenue.

Since the financial crisis began, the debt has started to increase again, the IMF predicts to 45 per cent of national income by 2013.[53] Debt payments have also increased. Between 2008 and 2010, foreign governments have lent $2.5 billion, private creditors $2.1 billion and multilateral institutions $1.3 billion.[54] At the end of 2008 there was a sudden stop in lending to the private sector from foreign companies, and there was a sharp fall in demand for Sri Lanka's exports. Drought in 2009 also hit agricultural production.[55] In response, between 2009 and 2011, the IMF lent $1.5 billion in emergency loans.[56]

In 2008, UK Export Finance, part of the UK government, backed £80 million ($130 million) of loans for the Sri Lankan government to pay British company Mabey & Johnson to build bridges in the country. At the time it had been alleged that Mabey & Johnson had made corrupt payments in other countries, and in 2009 were found guilty of bribing officials in Angola, Bangladesh, Ghana, Madagascar, Mozambique and Jamaica.[57]

The Sri Lankan government itself has been accused of serious human rights abuses. In April 2011 the UN Secretary General's panel of experts on accountability in Sri Lanka reported on the final stages of the civil war with the Liberation Tigers of Tanil Eelam (LTTE). The report concluded it had found: *"credible allegations, which if proven, indicate that a wide range of serious violations of international humanitarian law and international human rights law was committed both by the Government of Sri Lanka and the LTTE, some of which would amount to war crimes and crimes against humanity."*[58]

The IMF last conducted an analysis of Sri Lanka's debt in 2009, which said Sri Lanka is at moderate risk of debt distress, ie, a moderate chance it will not be able to afford to pay its debts in future. It predicted if there was one 'economic shock', foreign debt payments could reach 35 per cent of government revenue by 2013.[59]

3.3 Rising government expenditure in the 2000s

There is evidence that along with falling expenditure on debt payments, there have been increases in public spending elsewhere. The IMF and World Bank estimate expenditure on activities defined by them as ‘poverty reducing’ in HIPCs has increased from 7 per cent of national income in 2000 to 9 per cent in 2009.[60] This is a similar increase, though not quite as large, as the corresponding fall in debt payments (see above).

For example, according to World Bank figures, expenditure on public health in the thirty-two HIPC completion countries has increased from 5.2 per cent of GDP in 1995-2000 to 6.6 per cent of GDP in 2006-2009.[61]

One key benefit of savings from debt cancellation has been an expansion in public education. In several countries, savings allowed governments to abolish user fees – though often these had first been brought in as a condition of IMF and World Bank lending in the 1980s and 1990s.

Tanzania had introduced primary and secondary school fees in 1984 following the start of the debt crisis. Net enrolment in primary education fell from 70 per cent in 1980 to just under 50 per cent in the late 1990s.[62] Primary school fees were abolished in 2002 after debt relief in 2001. Net primary school enrolment shot-up to 82 per cent in 2003 and has been reported at 98 per cent in 2008.[63]

Across the 19 HIPC completion point countries with data, primary school enrolment increased from 59 per cent of children in the early/mid-1990s to 63 per cent in 2000 and 83 per cent by 2010.[64] There is more information available on the ratio of girls compared to boys enrolled in primary school. For the 32 countries which have completed HIPC, in 2000 for every 10 boys enrolled in primary school, just over 8 girls were enrolled. By 2010 this had increased to 9.5 girls.[65]

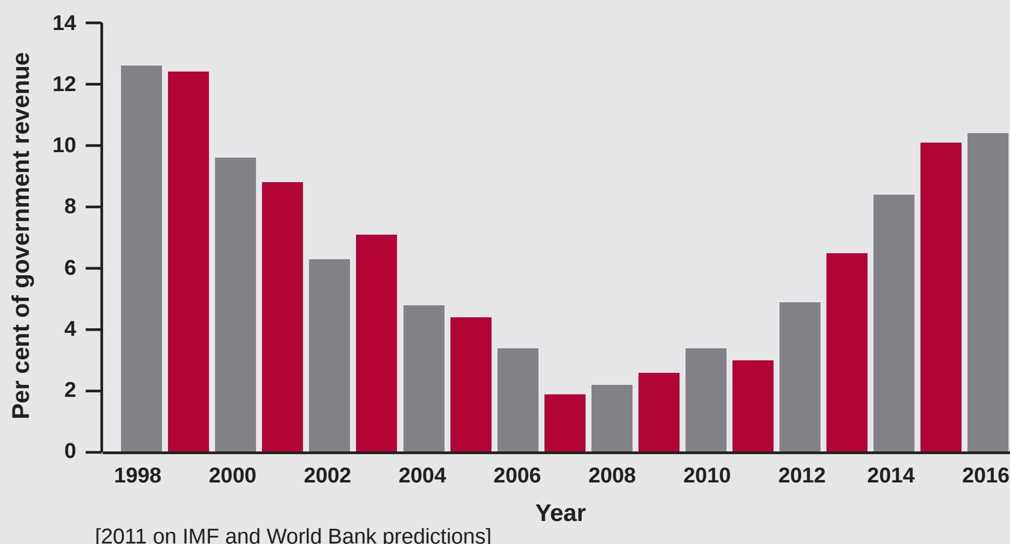
Country case study 3: Mozambique

Mozambique was one of the first countries qualifying for debt cancellation under HIPC in 2001, followed by MDRI in 2005. The government's foreign debt fell from 110 per cent of national income at the turn of the millennium, to 60 per cent following HIPC cancellation, then 30 per cent after MDRI. Payments fell from 12 per cent of government revenue in 1998 to a low of 2 per cent in 2007. Public expenditure on health and education increased from 30 per cent of government revenue in 1998-1999 to 36 per cent by 2005-2006.[66]

There have been improvements in health and education. Maternal mortality fell from 780 per 100,000 live births in 2000 to 550 in 2008. Ninety per cent of children were enrolled in primary education in 2009, up from 55 per cent in 2000. Poverty has fallen but is still extremely high; 60 per cent of the population live on less than $1.25 a day (down from 75 per cent in 2003), whilst 38 per cent of the population are undernourished (down from 46 per cent in 2001).[67]

The IMF and World Bank predict Mozambique's foreign debt payments will increase rapidly in coming years, reaching 10 per cent of government revenue by 2015-2016 (see Graph 5. below). Mozambique has been lent $2.2 billion since 2005, $1.3 billion (60 per cent) of which is from the World Bank, and a further $500 million from other multilateral institutions such as the IMF and African Development Bank.

Graph 5. **Mozambique debt payments as per cent of government revenue**[68]



[2011 on IMF and World Bank predictions]

The IMF predictions for foreign debt payments assume high economic growth of 7-8 per cent a year, and exports to grow by even more; 10-16 per cent a year. The IMF and World Bank predict that if there is one large economic shock,[69] debt payments will rise to 15 per cent of government revenue in 2015, rather than 10 per cent. Furthermore, following one economic shock, debt payments would stay at or above 10 per cent of government revenue until 2030, even without any more major negative economic events in the next two decades.[70]

4. Continued vulnerability and rising debt

The one-off debt cancellation of HIPC has brought government's breathing space from high foreign debt burdens. But on a global scale debts owed between countries continue to increase, especially in the 2000s, and impoverished countries remain highly vulnerable to changes in commodity prices and global financial flows. The First World Debt Crisis has caused relative debt burdens to increase in low and lower middle income countries. Now that HIPC is coming to an end, no international scheme exists for dealing with debt crises.

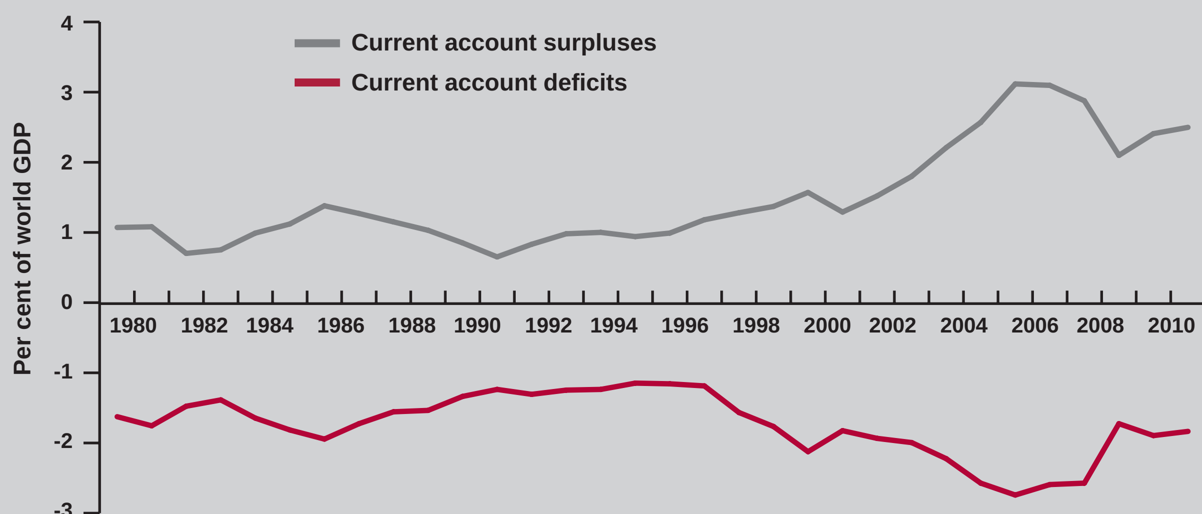
4.1 Ever increasing global debts

One way to measure the creation of debts are current account imbalances between countries. The current account measures all transactions between countries (public and private sectors) which do not purchase assets or create future obligations (through debt or other payments, such as company profits). It therefore covers imports and exports of goods and services, but also other current income and expenditure such as grant payments, company profits and cash transfers home by migrant workers.

If a country as a whole has a current account deficit, it needs to pay for the difference either through i) borrowing or ii) selling ownership of assets, such as company shares. Either of these creates future obligations to repay, whether through public or private debt payments or profits earned locally being transferred overseas. Current account deficits and surpluses therefore measure the rate at which debt and other obligations between countries are being created, whether by the public or private sector.

Between 2001 and 2006 global surpluses and deficits increased from 3.1 per cent of GDP to 5.8 per cent of GDP (see graph below).[71] This rising debt between countries was a key cause of the First World Debt Crisis. And it is a process which could well continue. A research paper for the Bank of England suggests that global current account imbalances could rise from 4 per cent of world GDP currently to 8 per cent in the 2030s, due to further integration of growing emerging market economies, and so greater movements of money between countries.[72]

Graph 6. **Current account surpluses and deficits between countries, per cent of world GDP[73]**



Between 2001 and 2011, the four largest 'borrowers' in absolute terms – those with the largest current account deficits - were the United States, Spain, the United Kingdom and Italy. The four largest 'lenders' were China, Japan, Germany and Russia. However, as a percentage of their own economy, the five countries with the largest current account deficit were two which had debts cancelled through HIPC – Liberia and Sao Tome – and three already heavily indebted small islands – Seychelles, St Kitts and Nevis, and St Vincent and the Grenadines.[74]

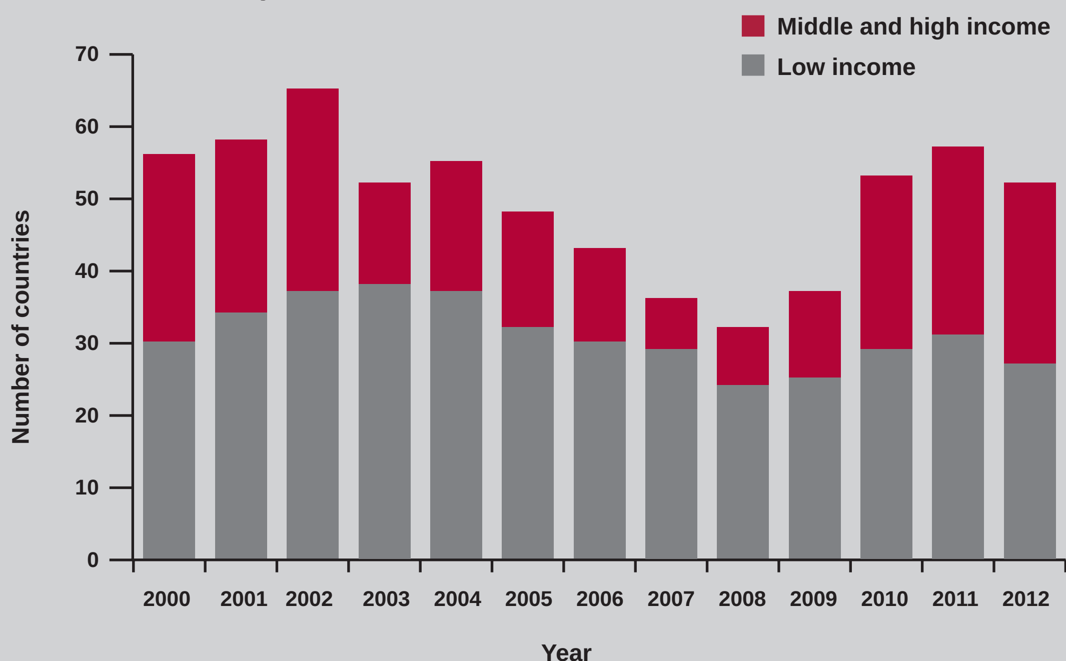
For the thirty-one HIPC completion countries for which there is data,[75] only one had a current account surplus on average between 2001 and 2011; Bolivia. Of the other thirty, ten had a current account deficit of more than 10 per cent of their GDP,[76] and a further twelve had a deficit of more than 5 per cent of their GDP over the decade.[77] In comparison, the UK had a current account deficit averaging 2 per cent of GDP over the same time period. Greece's was 9 per cent.[78]

Whilst debt cancellation reduced debt burdens, the vulnerability of HIPC's has generally not fallen. Most remain heavily dependent on public and private foreign borrowing and, private investment. Depending so heavily on foreign lending and investment makes countries vulnerable if there is a sudden stop to the money. It also creates obligations to repay the lender or investor in the future.

Another way of looking at whether countries have become more or less vulnerable is whether they are on an IMF programme. The IMF supposedly lends money to countries which are suffering from a short-term 'liquidity crisis'; a temporary inability to meet debt or other payments because your money is locked-up elsewhere. However, the IMF often interprets this to mean selling off assets (privatisation) or cutting public spending are ways of 'unlocking' resources.

IMF loans are not spent on anything specific, but used to meet debt and other payments, rolling over the debt to be owed to the IMF. The number of countries in receipt of IMF loans is therefore another measure of vulnerability. In the early 2000s over 30 low income countries were borrowing such emergency loans from the IMF. Despite debt relief, this had only fallen to 24 by the start of 2008. Since the crisis began, the number of countries borrowing from the IMF has risen again (see Graph 7. below).[79] Countries such as Burkina Faso, Malawi and Sierra Leone have 'temporarily' been borrowing from the IMF for over a decade.

Graph 7. **Number of countries borrowing from the IMF, at start of January in each year[80]**



Another measure of vulnerability is how dependent countries are on exporting primary commodities, and how much they have diversified into other activities such as manufacturing. Dependence on a small number of commodities makes countries highly vulnerable to sudden changes such as in price, natural disasters or resources such as minerals and fossil fuels being depleted. Revenues from commodities such as minerals, metals and fossil fuels are more likely to solely benefit elites and increase inequality. And diversifying away from commodities to higher-productivity goods tends to be associated with sustained economic growth; as Dani Rodrik from Harvard University has said: *"poor countries become rich by producing what rich countries produce"*.[81]

The United Nations Conference on Trade and Development (UNCTAD) report that dependence on primary commodities has if anything increased over the last decade. In 2008/09, two-thirds of developing countries received more than half their export earnings from primary commodities, exactly the same number as in 2002/03. In contrast, primary commodities made up less than one-fifth of export earnings in just 10 per cent of developing countries, a fall from 14 per cent in 2008/09.[82]

This will at least be partly due to the rising price of primary commodities since 2003 which has helped to increase economic growth, but this has not necessarily reduced poverty, created jobs or helped to diversify economies away from primary commodities. The UN Economic Commission for Africa's 2011 report states:

> the relatively strong economic performance in Africa since the turn of the 21st century has not resulted in satisfactory social development outcomes. For example, poverty rates have remained high in sub-Saharan Africa and the recent positive growth spells have not transformed into solid employment creation, one of the most important means to reduce poverty. Indeed the employment-to-population ratio has largely stagnated since 1991. West Africa has even registered a decline in the employment-to-population ratio over the last decade, as aggregate output has remained heavily dependent on extractive industries.[83]

The distributional impact of dependency on commodity exports is also seen with food prices. Over the last few years there have been wild swings in the price of internationally traded foods, with price spikes in 2007/08 and 2010/11. Whilst high food and other commodity prices have tended to increase export revenues and growth, high food prices have also increased malnutrition, and reduced access to food. The UN FAO estimates that the number of people undernourished increased from less than 850 million in 2005 to over 900 million since 2008.[84]

4.2 The First World Debt Crisis and increased vulnerability

The most recent in the succession of debt crises is the First World Debt Crisis. People of impoverished countries have suffered from this crisis; using IMF and World Bank predictions our research below shows that foreign debt payments will increase by at least one-third as a result. Some impoverished country governments could be as indebted in a few years as they were before debt cancellation.

The increase in debts owed by western countries, as well as debts owed within them, brought on the global economic crisis from 2007 to the present day. The crisis has had major ramifications across the world. For impoverished countries, in the immediate aftermath of the crisis income from exports fell, commodity prices have been extremely volatile, profit was taken out of countries by multinational companies, and earnings from migrants working overseas fell.

The impacts of the crisis initially reduced economic growth in low income countries, and falling revenues led to new borrowing. Per person economic growth in low income countries fell from over 3 per cent in 2007 and 2008 to less than 1 per cent in 2009.[85] New foreign loans to low income countries increased from $5.2 billion in 2007 to $6.8 billion in 2008 and $9 billion in 2009.[86] This new lending and borrowing has increased debt burdens; the increase in payments will be seen in coming years.

On the IMF and World Bank's own predictions, average debt payments as a percentage of government revenue for countries that have completed HIPC will rise by one-third; from 4.6 per cent in 2010 to 6.1 per cent by 2014. For low and lower middle income countries which have not had debts cancelled through HIPC, but for which there are IMF and World Bank predictions, average debt payments are also predicted to rise by one-third; from a low of 7 per cent of government revenue in 2008 to 9.4 per cent by 2014.[87]

But again, averages are a poor indication of IMF and World Bank predictions at a country level. Of the impoverished countries for which they make predictions (a smaller group than referred to in Section 3.2 above) by 2014, they estimate 17 governments will be spending more than 10 per cent of government revenue on paying foreign debts, up from nine in 2010. Of these 17 countries, two have had debt cancelled through completing HIPC, the other 15 have not had debt relief (see Appendix for detailed figures).

On IMF and World Bank predictions, the most indebted low and lower middle income countries will remain those which have not qualified for debt cancellation. However, some countries which have had debt cancelled, such as Ethiopia, Mozambique and Niger, could be spending as much on foreign debt payments in a few years as they were before debt relief (see Boxes 3 and 4, and Appendix.).

The IMF and World Bank predictions are a baseline, usually assuming strong economic and export growth. So far they have tended to underestimate future debt burdens.[88] As part of the debt sustainability analyses they conduct, the Bank and Fund also try to predict how the debt situation would change if there were an economic shock such as drought, flood, currency devaluation, change in world economy, or change in important commodity prices. However, a recent Bank and Fund review of this system found that for one in eight cases so far, shocks have led to larger debts being created than the IMF and World Bank's most extreme assumptions.[89]

The IMF and World Bank said in 2010 that the global financial crisis has had a significant impact on low income countries debt vulnerabilities, but they do not expect it will result in *"systemic debt difficulties"*.[90] In November 2011 they argued that there is a lack of *"systemic evidence that debt vulnerabilities among low income countries have intensified"* since the crisis began.[91] However, as outlined above, there is evidence that the crisis has resulted in more lending and borrowing, and therefore higher debt payment burdens in coming years.

The impact of the ongoing First World Debt Crisis continues around the world. A recent prediction by the IMF is that if there is a downturn in the global economy in 2012, there could be $27 billion of new debt created in just one year for low income country governments.[92] This would be a 25 per cent increase on current low income public debt of $110 billion.[93] The repercussions of the First World Debt Crisis could yet have an even greater impact.

The IMF and World Bank's own debt analysis looks solely at how likely a country is to default on paying its debts, rather than an assessment of how the costs of debt are impacting the country and its people. As of March 2012, the IMF and World Bank have assessments of 68 low and middle income countries,[94] of which:

- 5 are in default on at least some of their debt payments
- 15 are at high risk of not being able to pay their debts
- 23 are at moderate risk of not being able to pay their debts
- 25 are at low risk of not being able to pay their debts

Country case study 4: Ethiopia

Ethiopia qualified for debt cancellation through HIPC in 2004, and subsequently MDRI when it was agreed in 2005. Its debt payments fell from averaging 10 per cent of government revenue a year from 1998-2000 to 4 per cent a year from 2007-2009. At the same time, combined spending on public health and education increased from 22 per cent of government revenue in 2000-2001 to 32 per cent by 2006-2007.[95]

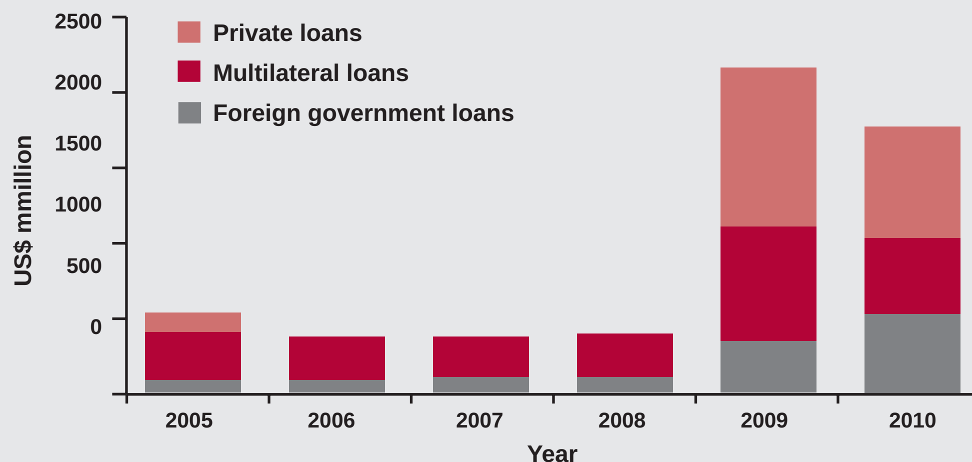
Official data suggests there have been improvements in health and education outcomes. The percentage of children enrolled in primary education has increased rapidly from 50 per cent in 2004 to 85 per cent by 2009. Maternal mortality fell from 750 per 100,000 live births in 2000 to 560 in 2005 and 470 in 2008.[96] However, 41 per cent of the population were undernourished in 2006-2008, not much lower than the 48 per cent in 2000-2002.[97]

Since the financial crisis began the government's foreign owed debt has shot-up from $3 billion to $7 billion, and is predicted to reach $10 billion by 2014. In 2010 the IMF predicted that by 2014 the country would be back to spending 10 per cent of government revenue a year on debt payments. This assumes Ethiopia's economy grows by 7-8 per cent a year, and exports by 17-20 per cent a year.[98]

The Ethiopian government has become increasingly repressive in recent years. Following elections in May 2011, Amnesty International say that legislation which severely limits human rights activities came into force. *"The independent press was severely restricted. State resources, assistance and opportunities were broadly used to control the population."*[99]

Since 2005, Ethiopia has been lent $5.6 billion, including $1.6 billion from the World Bank. The bulk of this has been lent since the financial crisis began in 2008.

Graph 8. New foreign loans to Ethiopian government[100]



The severe drought in 2011 has probably made the situation even worse, though the Ethiopian government has refused to allow the latest IMF and World Bank debt assessment to be released. The 2010 assessment said Ethiopia's debt payments would reach 15 per cent of government revenue by 2015 in the case of one economic shock.[101] Ethiopia has arguably already suffered this shock with the drought, and the knock-on effects of the European debt crisis may be another.

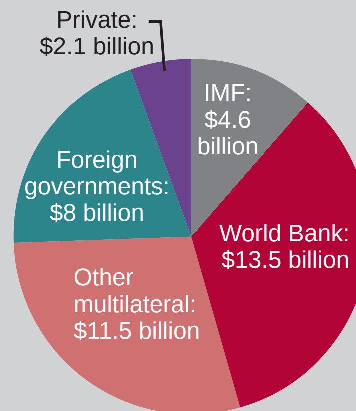
The IMF and World Bank say Ethiopia is still at low risk of debt distress; ie, it should be able to afford to keep meeting debt payments. However, the debt created in recent years may lead to as much of a debt burden for the Ethiopian people as existed before debt cancellation.

4.3 The lenders

For the most impoverished countries, governments and international institutions remain the largest source of lending, particularly the IMF and World Bank themselves. According to World Bank figures, over the last five years, low income country governments have been lent $40 billion by foreign lenders, 45 per cent of which is from the IMF and World Bank. $30 billion is from multilateral institutions, including $18 billion from the IMF and World Bank. $8 billion has come from foreign governments, and $2 billion from private lenders.[102]

Lower middle income countries have been lent a much greater sum; $290 billion. Of this, the private sector has lent $130 billion, multilateral institutions $100 billion ($77 billion from the IMF and World Bank) and foreign governments $60 billion.[104]

Graph 9. Source of foreign loans to low income country governments, 2006-2010[103]



4.3.1 Aid lending

Much of the governmental lending to low income countries is classified as 'aid'. Because they have low interest rates, loans from subsidised parts of multilateral institutions are counted as aid. This includes the International Development Association of the World Bank, Poverty Reduction and Growth Trust of the IMF, and African Development Fund of the African Development Bank. We calculate that in 2010 $9.4 billion in 'aid' was given to multilateral institutions which then used it to subsidise lower interest loans.[105] The largest users of aid in this way were Japan ($2.2 billion), the UK ($1.3 billion) and France ($1.2 billion).

Governments also continue to give low-interest loans which are counted as aid, as are some equity investments in companies, which create an obligation for profits to be paid back – effectively to governments. Figures from the OECD show that 'aid' loans and other 'investments' (such as buying shares) by OECD governments to developing countries totalled $10 billion in 2007 rising to $16 billion by 2010. The top giver of such loans and buying shares (equity) is by far Japan, averaging $7 billion a year, followed by France ($2 billion a year), Germany ($1.8 billion a year), Spain ($0.7 billion a year) and the UK ($0.7 billion a year).[106 107] These loans and equity investments are to all developing countries, and may be more likely to be middle income rather than low income countries.

Combining these two sources of lending and investments, we therefore estimate $25 billion in 2010 - 20 per cent of what is counted as 'aid' – is ultimately given to developing countries as loans or equity rather than grants. In absolute terms, the largest lender is Japan, followed by France, Germany and the UK (see Table in Appendix).

In 2007, the UK government announced it would give £850 million ($1.4 billion) for countries to adapt to, and mitigate, climate change over coming years. Much of this money was given to various World Bank funds as capital, so has had to be lent rather than granted. This so far includes £217 million ($350 million) of capital for a programme created in the World Bank to fund adaptation to climate change in developing countries, the Pilot Programme for Climate Resilience. Other countries made grant contributions to the fund, which are being given-on as grants.

By June 2011, the World Bank Pilot Programme for Climate Resilience had announced $370 million of loans to countries such as Bangladesh, Nepal, Niger and Zambia, virtually all of which was originally UK

government money, and $400 million of grants. But in addition, a further $750 million of climate adaptation loans had been agreed from other parts of the World Bank or institutions such as the Asian Development Bank.[108] Forty-eight civil society organisations from the countries in receipt of the loans wrote to the UK government in June 2011 saying:

> instead of reparations, the UK is pushing for loans for climate change through the World Bank. Climate loans will only lock our countries into further debt, and further impoverish our people. This will not provide the compensation required to enable people to cope with the impacts we are facing. Loans for climate change are not acceptable. [109]

The European Commission is planning to announce new forms of funding which blend grants and loans. There is little detail yet on how this would work. Currently all the aid given directly by the Commission is grants, though they give grants to projects alongside loans from lending institutions such as the European Investment Bank and European Bank for Reconstruction and Development. However, the Commission is planning to start using its resources to subsidise loans either directly, or through other European institutions.

A further new source of lending is loans from Southern governments such as China. The amount of 'aid' given by such countries is still low compared to that given by OECD countries. Brazil, China, India, Russia and South Africa are estimated to give $3.7 billion of 'aid' to other developing country governments each year, though it is not known how much of this is grants, and how much low-interest loans.[110] However, a major source of lending from OECD and BRIC governments are loans at higher interest rates, usually given to win business for that country's companies, which we look at in the section below.

4.3.2 Non-aid government lending

OECD governments and some emerging market governments give or back export credits; loans to foreign governments or private companies to buy their exports. Such agencies are often very opaque, so it is hard to monitor their lending operations; either how much is being given, or what it is for.

According to the industry body the British Exporters Association, the top ten export credit agencies backed or gave loans of $260 billion in 2009, though it is not known how these loans were distributed between, high, middle and low income countries. Moreover, they include loans to private companies as well as governments. The largest lender in 2009 was Canada's EDC, with $80 billion of loans, followed by China's agencies ($63 billion), Germany's Euler Hermes ($29 billion) and France's Coface ($26 billion).[111]

A major growth in lending is from emerging market governments such as China, though it is hard to find accurate figures on the extent of lending. A recent report found that between 2005 and 2011, China committed to lending $75 billion to Latin America and the Caribbean.[112] This compares to lending actually disbursed by the World Bank over the same time period for Latin America and the Caribbean of $66 billion.[113] However, there is a lack of clear data on Chinese lending. The figure above is amounts announced in that time, rather than actually disbursed, and includes three large announcements of $20 billion to Venezuela, $10 billion to Argentina and $10 billion to Brazil, which may be disbursed over several years.

The Jesuit Centre for Theological Reflection in Zambia have voiced concerns about various loans the Zambian government has taken from China and India, particularly due to the fact they are tied to buying Chinese and Indian exports. These deals have included a $53 million loan for Chinese mobile hospitals, $3 million for Chinese Hearses and $50 million from India for equipment for the Itezhi-Tezhi power project, 85 per cent of which had to be sourced from India.[114]

Often more is known about how such lenders have operated in the past. Documents uncovered by Jubilee Debt Campaign from the UK's national archives reveal that the UK's Export Credit Agency, now known as UK Export Finance, backed loans to countries such as Egypt, North Korea and Burma which were tied to buying British exports, knowing that they would struggle to repay. The UK's political and economic interest trumped any concern for preventing large debt burdens. More recent loans have included one in the late-1990s for the Zimbabwean police to buy 1,500 British made Land Rovers, even though the Zimbabwean government was already spending one-third of export revenues on foreign debt payments.[115]

4.3.3 Hidden debts: Public-private partnerships

Because of structural adjustment, liberalisation and privatisation, the role of government in economies has tended to be reduced across the world. The smaller the role government plays in the economy, the less reason it has to borrow. For example, if a railway system has been fully privatised, debts for investing in the railways are meant to be contracted by the private sector, rather than the public.

Since the 1990s public-private partnerships (PPPs) have increasingly been used as a way to invest in infrastructure. The UK was a trailblazer for PPPs, under its Private Finance Initiative. Private companies undertake the building and/or operation of public infrastructure, in the UK's case such as schools and hospitals. Under the standard model, the government commits to pay annual charges for a set number of years, before the infrastructure comes into public ownership.

The debt to pay for the infrastructure is officially taken on by the private sector, and therefore does not appear in the government's books. But the payments by the government to the private company are effectively debt payments; the debt is kept off the books, but it still has to be paid. Research for the IMF summarises that in the United Kingdom and many other European countries: *"the government has used public-private partnerships to build new roads, railways, and hospitals without having to count the investment spending as its own, even though the government assumed debt-like obligations to pay for the infrastructure later"*.[116]

Because the private sector often has to borrow at a higher interest rate than the government, make a profit, and cover its costs, it can cost the government more than if it had borrowed directly, as has consistently been seen in the UK.[117]

According to a World Bank database, the amount lent or used to buy equity in infrastructure (energy, telecoms, water and transport) through private participation in low and middle income countries has increased from $9 billion in 1991 to $162 billion in 2010.[118] Relative to the size of their economies, South Asia has the most private participation in infrastructure; 3.5 per cent of national income was lent or used to buy equity in 2010. Sub-Saharan Africa was the second highest, with 1.1 per cent. East Asia and the Pacific had the least, 0.15 per cent of national income.[119]

By no means all these deals will have the financial structure described above. Some will have created hidden obligations for the public sector in different ways. Others could be in infrastructure which has been fully privatised, so not create any direct obligations for the government; though citizens would still expect the government to step-in and deal with the costs if the project failed. But because one of the points of PPPs is to keep the debt off the books, it is genuinely hidden from view how much extra debt is out there. Neither is it known how much of the private finance is domestic, and how much comes from foreign lenders.

In a recent UK DfID report an emphasis is placed on the private sector as one of the key means to make UK aid work more effectively.[120] The report pledges to encourage PPPs, which it says will be particularly effective in the area of climate change; presumably energy and transport. For example, the report says, to 'support greener growth' the government will work on new PPPs, which will supposedly secure up to £3 of private investment for every £1 of public money spent.[121] However, this private investment is not free money, but creates an obligation to repay through taxation or user fees.

5. The private borrowing and lending boom

Borrowing and lending within the private sector can cause financial and debt crisis, as has been seen in East Asia in the 1990s, and the US and Europe today. Private foreign finance can lead to more investment, but can also be speculation increasing inequality, undermining the domestic economy and generating cycles of boom and bust. Worryingly, little attention has been paid to debts owed by the private sector in low income countries. In some it is already extremely high.

5.1 Private debt and financial crisis

The original Third World Debt Crisis was caused primarily by bank lending to governments. The HIPC process sought to address the legacy of this government owed foreign debt. However, private sector foreign lending – and other obligations – can also create debt and financial crisis. Both the East Asian financial crisis in the mid-1990s, and the First World Debt Crisis of recent years, have been caused primarily by borrowing and lending between the private sector, especially banks.

In Thailand, in response to several years of sustained economic growth, in the mid-1990s there was a huge increase in foreign private lending to the Thai private sector. This came in the wake of removing regulations on private lending, such as getting rid of limits on the extent to which banks could lend for speculative real estate.[122]

Private sector foreign debt shot-up from $15 billion in 1993 to $48 billion by 1996, accentuating Thailand's boom. In particular, the speculation pushed up prices for Thai real estate. Private sector debt reached 25 per cent of national income in 1996, whilst the government's foreign debt fell from 15 per cent of national income in 1990, to less than 10 per cent by 1996.

When private lenders suddenly lost confidence in Thailand they stopped lending and began taking money out of the country. The economy shrank by 2 per cent in 1997 and 11 per cent in 1998. Unemployment tripled[123] and the percentage of the population living in poverty (as defined by the Thai government) increased by 40 per cent.[124]

According to John Williamson in 1999, then Chief Economist for the South East Asia region at the World Bank:[125]

> I think everybody agrees that a large component of the problem was in the financial structure, that there was too much debt relative to equity; that there was too much short-term debt relative to long-term debt; that there was too much foreign currency debt relative to domestic currency debt; that there were too many non-performing assets in the banking system. Those were the underlying problems in those economies … I conclude that it was the openness of the capital account that created the vulnerabilities which permitted the financial crisis to spread in the way we saw in East Asia.[126]

The root cause of the debt crisis in many European countries today is debt owed by the private sector, particularly banks. For example, borrowing by Ireland's private sector led to the foreign debt of the country as a whole reaching 1,000 per cent of GDP by 2007 – primarily debt owed by banks – though large amounts of foreign owned assets were also claimed – again by banks - which supposedly partially balance this huge figure. The government's debt, owed both domestically and externally, was just 25 per cent of GDP and falling prior to the crisis – the government had a budget surplus.[127] The Irish private sector's borrowing from the rest of the world can also be seen in the country's trade balance; Ireland had a current account deficit from 2005 to 2008, averaging 4.5 per cent of GDP.[128]

This private lending and borrowing contributed to a boom during the 2000s, which rapidly turned to a bust in 2007/08 when banks, starting in the US with

the sub-prime crisis, had to start writing off loans they were due to be paid, and so stopped lending to each other. The Irish banks had borrowed recklessly and were bankrupt.

The Irish government guaranteed the debts of the Irish banks, transferring obligations directly from the private sector to the state. At the same time, the Irish economy crashed – by 3 per cent in 2008 and 7 per cent in 2009. This drastically reduced government tax revenues. Unemployment increased from 5 per cent to 15 per cent, increasing the need for government spending on welfare payments. This has led to Irish government debt increasing more than four-fold to 113 per cent of GDP by 2012. Again, some of this debt is owed domestically, some externally. The IMF estimate that Ireland's (public and private sector's) net foreign owed debt (so taking account of assets held abroad) is 90 per cent of GDP.[129]

Iceland had a similar experience prior to the financial crisis. Its total external debt had reached over 600 per cent of GDP by 2007, whilst government debt was just 30 per cent; two-thirds of which was in Icelandic currency and so likely to be owed to Icelandic savers. However, the country's net foreign debt, taking account of any assets held overseas, was far worse than Ireland's.[130] Iceland had a gigantic current account deficit between 2005 and 2008, averaging 21 per cent of GDP a year.[131]

The Icelandic economy shrank by 7 per cent in 2009 and 4 per cent in 2010. Government debt shot up to 100 per cent of GDP by 2011. Unemployment increased from 2 per cent to 8 per cent. However, the government did not provide a blanket guarantee to the bust Icelandic banks. Instead it sought to guarantee domestic accounts, while allowing banks to default on debts to foreign creditors.[132] Capital account regulations were introduced to prevent money flooding out of the country, whilst unlike Ireland, Iceland still has its own currency, which devalued, giving a boost to local producers and exporters.[133] Iceland's economy has been growing by 3 per cent a year since 2011, unemployment has started to fall, as has government total debt.[134] Nobel prize wining economist Paul Krugman summarises the Icelandic experience:

> Where everyone else bailed out the bankers and made the public pay the price, Iceland let the banks go bust and actually expanded its social safety net. Where everyone else was fixated on trying to placate international investors, Iceland imposed temporary controls on the movement of capital to give itself room to maneuver …Iceland hasn't avoided major economic damage or a significant drop in living standards. But it has managed to limit both the rise in unemployment and the suffering of the most vulnerable; the social safety net has survived intact, as has the basic decency of its society.[135]

Both the Icelandic and Irish experiences show the dangers of unregulated private sector debt, and how this can lead to crisis and large debt burdens for the public. However, Iceland also shows again that measures such as cancelling or defaulting on debts, and regulating the movement of money in and out of the country, can help resolve the crisis and bring a quicker recovery.

Kinds of private debt and other obligations

Much debt owed within the private sector, but across borders, is within the same multinational company. These debts can be created for a variety of reasons, from avoiding taxes to genuine investment in new infrastructure. Because they are transactions between subsidiaries of the same company, current accounting and reporting rules allow them to be well hidden.

Of course, loans also take place between companies and institutions, such as bank loans, or pension and other investment funds giving loans through buying company bonds. Unlike governments, the private sector can also gain resources now to be paid back in the future without taking out loans, through selling company shares.

Shares are generally seen as less destabilising than loans, because they spread risk more between the 'lender' and 'borrower'. 'Payments' are only made if the company generates a profit. If the investment fails, no profits, and so no payments, are made. On the flip side, if the investment is very successful and there are high profits, the 'lender' gets far more back than if they had given a loan with a set interest rate.

Whilst shares, otherwise known as equity, may be less risky than loans, they can still destabilise an economy. Large inflows of money through buying shares can generate a boom. If the investments fail, whilst 'payments' may not be made, more inflows of money will not follow, but the bust may. Or if a large proportion of the investment is from foreigners, the profits may be taken out of the country – known as 'profit repatriation', and there will be little benefit for local people.

In many countries, investment through riskier debt rather than equity has a tax advantage because interest payments can be offset against corporation tax, but the same does not apply to dividend payments on shares. Therefore, investing in something through loans rather than shares allows capitalists to pay less tax.

5.2 Investment versus speculation and looting

Debt can be unproductive when it comes from speculation on assets which already exist. This still creates future obligations – in terms of debt payments or profits being taken out of the country – which make financial crises more likely and countries more vulnerable when they occur.

5.2.1 Private finance: Real investment or buying-up assets?

Just as with the public sector, private borrowing (or other finance such as equity) is neither good nor bad. The questions which should be asked are whether it is being usefully invested, who is benefiting, what obligations it is creating for the future, and whether it is helping to make a country more or less vulnerable to a crisis? Unfortunately, much political rhetoric ideologically assumes private lending and borrowing is 'investment' and necessarily a 'good thing'.

For example, the phrases 'Foreign direct investment' and 'equity investment' suggest the money being lent or invested is creating something new, which will increase production. But this is not necessarily the case. A key question over much 'investment' today is how much is genuinely investment, and how much is simply speculation or transferring ownership, not creating anything real, but creating new obligations for debt payments and profits being taken out of the country.

The economist Michael Hudson argues that *"financial manoeuvring and debt leverage"* are a means of financial conquest, buying ownership of assets which already exist, then claiming the income on those assets. Hudson argues:

> Bankers in the North look upon any economic surplus – real estate rent, corporate cash flow or even the government's taxing power or ability to sell off public enterprises – as a source of revenue to pay interest on debts. The result is a more debt-leveraged economy in every country. Foreign investment, bank lending, the privatization of public infrastructure and currency speculation is now managed from this bankers'-eye perspective … The tragedy of our epoch is that most credit is extended to buy rent-extracting opportunities, not for productive capital formation. Banks prefer to lend against property already in place – real estate or companies – than to finance new capital investment.[136]

Dani Rodrik from Harvard University and Arvind Subramanian from the Peterson Institute for International Economics find evidence that increased capital inflows have not increased investment in the global South. They state that: *"Financial globalisation has not generated increased investment or higher growth in emerging markets. Countries that have grown most rapidly have been those that rely less on capital inflows."*[137]

Rodrik and Subramanian explain that developing countries are more likely to be constrained by a lack of investment opportunities, than by a lack of savings or capital to invest. 'Foreign finance' actually makes this lack of investment opportunities worse because the inflow of money can push up the exchange rate, reducing investment opportunities for goods which can be traded. They conclude that: *"It is time for a new paradigm on financial globalization, and one that recognizes that more is not necessarily better."*[138]

Inflows of foreign money can also reduce domestic savings, and so weaken domestic investment. In Pakistan, statistical analyses suggest that a 1 per cent of GDP increase in foreign finance decreases domestic savings by 0.8 per cent of GDP.[139]

5.2.2 Speculative money and boom and bust

Excessive foreign speculation and buying up of assets in a country can lead to an economic boom, such as that experienced by Thailand prior to its financial crisis in 1996. But booms are not just a problem because they are followed by a bust and crisis. They also push up prices of fixed assets such as housing and land; benefiting those who already own such capital, whilst negatively impacting on those who don't.

Rapid flows of capital into a country can also push up the exchange rate, making domestic producers less competitive and putting them out of business.

Economists at Columbia University have found that in eleven countries with good data on income distribution, the middle class loses out in the wake of financial liberalisation, whilst the richest 20 per cent gain.[140] Research in India has found that financial liberalisation contributed to increased inequality.[141]

One problem seen in both the global North and South is the 'Dutch disease'; first noted for the Netherlands' experience in the 1960s and 1970s. In the late 1950s a large Dutch gas field was discovered. The increased export revenues were spent on imports, pushing up the exchange rate, making manufacturing less competitive, and causing it to decline. The Dutch Disease brings two main problems:

1. if the new revenues are not shared, it may privilege only some of the population, especially if the sector concerned has low labour intensity, such as with extractive industries. Meanwhile, workers and capital in other domestic industries lose out, either because their exports are now too expensive for the rest of the world, or imports from other countries become too cheap.
2. if the revenues come to an end, for instance a gas field is fully exploited, the country is left with few domestic producers and a crisis ensues.

The Dutch Disease does not just arise from extractive industries, though this is a very important issues in Southern countries. It can also come from official foreign aid and loans, and more generally capital movements. Foreign money, whether loans, equity or grants, can only ultimately be used to buy imports. There is potentially a tension therefore between large amounts of foreign finance undermining the domestic economy. Large inflows, whether loans, equity or grants, can push up the exchange rate, cause more imports to be bought, and harm domestic production. Just as with natural resources, large foreign capital inflows can undermine a domestic economy. A crisis can be brought on if the money stops being granted or loaned, and/or the finance is rapidly taken out of the country.

5.2.3 Capital flight and tax avoidance

Another feature of money being able to move around the world unreported and unregulated is how this fuels 'capital flight' and tax avoidance. The think tank Global Financial Integrity estimate that $900 billion in 2009 was lost in 'capital flight' – it illicitly left developing countries hidden in trade deals or unrecorded in official figures (probably indicating bribery, theft and tax evasion).[142] Christian Aid estimate that of this $160 billion is lost to governments through tax avoidance and evasion.[143]

Private lending and borrowing can be used directly as a way to avoid paying taxes. For example, a company can make a loan to a subsidiary in another country. Interest payments on the loan are made before profit is calculated and tax is charged, and so leave the country tax free. Increasing the amount of loans to the subsidiary, and the interest rate on them, increases payments, lowers the subsidiary's profits, but increases the profits of the lending part of the company. If the part of the company which lent is in a jurisdiction where corporation tax is less, it has successfully lowered its tax bill. One growing source of foreign lending into low income countries is via offshore tax havens, because of the ability to avoid taxes this gives to both foreign lenders, and domestic investors who use tax havens as a conduit to avoid local regulations and taxes.[144]

According to John Williamson in 1999, then Chief Economist for the South East Asia region at the World Bank, tax evasion *"becomes ever more critical the more liberal are capital flows."*[145] To attempt to try to recover taxes on finance being taken out of a country requires authorities to know that it exists.

Authorities which want to prevent tax avoidance, tax evasion, and proceeds of corruption need information to do so. At the least, data needs to be collected on financial flows across borders to give any hope to clamping down on avoidance.

5.3 The state of private debt in impoverished countries

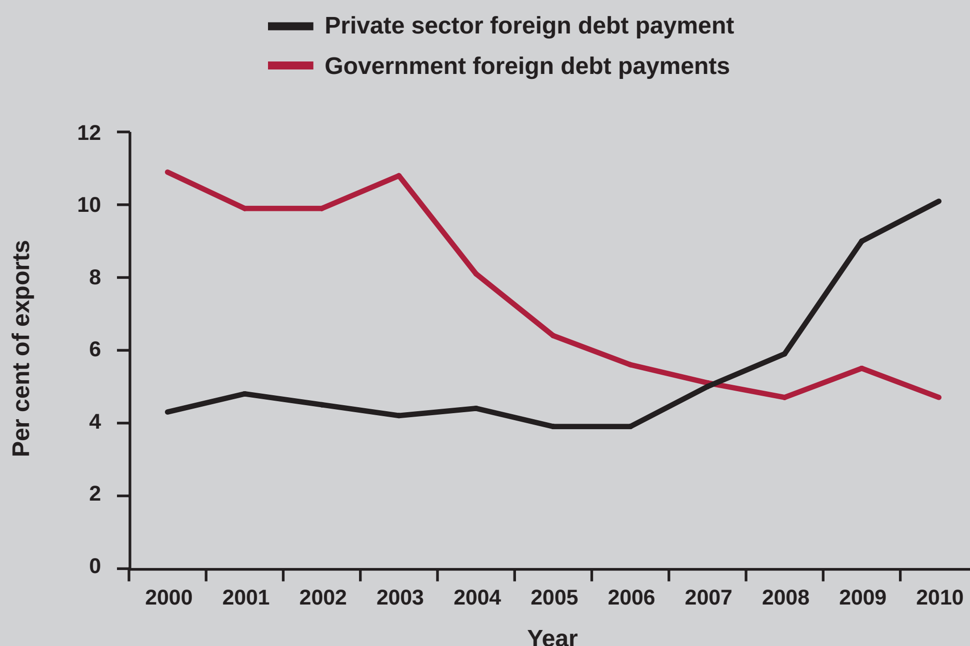
There is little data available on foreign owed debts by the private sector in low and lower middle income countries. Until recently, the IMF and World Bank did not take any account of foreign debt owed by the private sector when making judgements on the external debt situation of low income countries. At the start of 2012, the two institutions said privately owed foreign debt should be taken account of in debt assessments, though did not give details on how, nor say how data would be found where it does not exist.[146]

The IMF and World Bank say: *"In many Low Income Countries, private external debt is negligible, or data is unavailable."*[147] They add: *"In a sample of 70 Low Income Countries, only half report any private external debt ... There are, however, some cases where private external debt is already substantial in relation to GDP, and one can expect the number of such cases to rise in the coming years."*[148]

For the half of low income countries which do report on privately owed foreign debt, average debt is over 15 per cent of GDP.[149]

We have found figures for private sector foreign debt payments for 32 low and lower middle income countries. For these countries, the average foreign debt payments by the private sector has increased from 4 per cent of export earnings in 2000 to 10 per cent in 2010. At the same time, government foreign debt payments for these countries has fallen from 10 per cent of export revenues in 2000 to 5 per cent in 2010. For countries with figures, foreign debt payments by the private sector are now double those of the public sector.

Graph 10. **Private sector and government foreign debt payments, per cent of exports (for 32 countries with data on private payments)**[150 151]



According to IMF and World Bank figures, Nicaragua's private external debt is currently 48 per cent of GDP, compared to 45 per cent for the public sector. Payments on private debt are costing 10 per cent of Nicaragua's export revenues, compared to 2 per cent for public debt payments.[152] In Senegal, external private debt is 22 per cent of GDP, compared to 31 per cent for public external debt. Senegal's private external debt payments cost 13 per cent of exports, compared to 7 per cent for public debt payments.[153]

Research for the Foreign Private Capital Monitoring and Analysis Capacity Building Programme (supported by UK DfID and the World Bank, amongst others), finds that private capital flows into low income countries *"are very large compared to their economies, and as volatile as they are in larger emerging markets"*.[154]

Low income countries have often recognised this more than the outside world. A 2012 meeting of the Financial Stability Board's Regional Group for Africa, made-up of financial authorities from nine African countries, discussed *"policy options for reducing the volatility of capital inflows and the development of domestic capital markets"* as an alternative source of investment.[155]

Detailed research for the Foreign Private Capital Monitoring and Analysis Capacity Building Programme in eight low income countries found that in 2007, privately owed debt made up 75 per cent of Zambia's external debt, 50 per cent of Ghana's and 40 per cent of Uganda's. In total, private external debt was 20 per cent or more of GDP in Zambia, Cameroon and Ghana.[156] However, the World Bank's figures report foreign debt owed by the private sector as being less than 10 per cent in Ghana and Zambia, and zero in Cameroon.[157]

The same study found financial flows underestimated across the board. In Ghana, surveys discovered previously unreported profits taken out by multinational companies and interest payments on private debt which led to a current account deficit 22 per cent higher than predicted. There was therefore also more lending or other financial flows into the economy.[158] The authors of the study, Nils Bindha and Matthew Martin, conclude: *"The crisis has underlined that private flows are not a stable and predictable source of finance [for low income countries]."*[159]

Country case study 4: Georgia

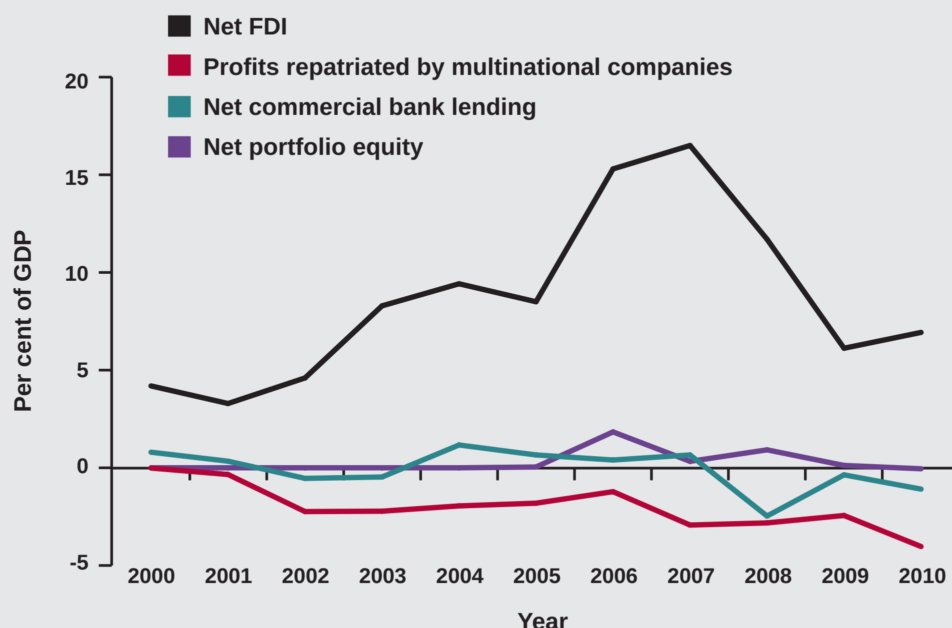
Georgia became independent in 1991, and like other parts of the former USSR, saw its economy collapse with the sudden transition from a planned to radical free market economy. In per person terms, the economy shrank by 70 per cent between 1990 and 1994. By 1994, national income was just $520 per person.[160]

The Georgian government at independence did not owe any foreign debt. But with the economic collapse, public external debt rapidly increased to almost 50 per cent of national income by 1999. Georgia was not considered for the HIPC initiative because although it had been impoverished, its debt was considered payable by the IMF and World Bank. Foreign debt payments by the government averaged the equivalent of 20 per cent of government revenue between 1997 and 2006. But after 2003 these payments and economic growth finally began to significantly reduce the government's foreign debt, from 40 per cent of national income in 2003 to 15 per cent by 2007. Foreign debt payments were down to 5 per cent of government revenue in 2007 and 2008.

In the mid-2000s the economy boomed, growing by an average annual rate of 10 per cent between 2003 and 2007. National income per person reached $2,300 by 2007. However, inequality increased. Between 1996 and 2008, the poorest 20 per cent saw their share of national income fall from 6 per cent to 5 per cent, whilst the richest 20 per cent increased their share of national income from 44 per cent to 47 per cent.[161] More dramatically, the percentage of the population living on less than $1 a day increased from 5 per cent in 1996 to 15 per cent by 2008.[162]

During this 'boom' a large amount of foreign private finance was lent and bought assets in the country, primarily classed as foreign direct investment (see Graph 11. below). By 2008, foreign debt owed by the private sector was estimated to be 30 per cent of national income, double that of the public sector.[163]

Graph 11. **Foreign financial flows in and out of Georgia, 2000-2010**[164]



In August 2008, Georgia went to war with Russia over the separatist regions of South Ossetia and Abkhazia. Around 500 military and civilians were killed on all sides. At the same time, Georgia was being impacted by the global financial crisis. Net foreign direct investment fell rapidly, whilst profits taken out of the country by multinational companies, and payments on privately owed foreign loans increased. The net private financial flows into Georgia (the sums of the four lines in the graph above) fell from 16 per cent of GDP in 2006 to 7 per cent in 2007, and 2 per cent in 2010; dramatic changes with profound implications.

The country re-entered a financial crisis, with the economy growing by only 2 per cent in 2008, then contracting by 4 per cent in 2009. The government's foreign debt again rapidly increased; the IMF and World Bank estimated it would be back to 43 per cent of national income by 2011.[165] Borrowing was low from 2000 to 2007 but has boomed since the war and financial crisis, rising from around $100 million a year from 2000 to 2007, to $900 million a year in 2008 to 2010. The large private sector debt has effectively helped to create a financial crisis which has resulted in the government's foreign debt once again reaching high levels.

Debt payments for the whole of Georgian society are predicted to average 26 per cent of exports over 2011 to 2015; two-thirds of this is payments by the private sector and one-third by the government. Government foreign debt payments are predicted to be the equivalent of 12 per cent of government revenue from 2011 to 2015.[166]

5.4 Private debt and financial flows into emerging markets

Whilst the growth of private debt and other obligations in low income countries has been unwatched and unreported, there has been much greater attention given to the financial flows into and out of larger middle income countries or 'emerging markets'.

Over recent years, China has consistently been a net lender to the rest of the world; it has had a current account surplus of between 5 and 10 per cent of GDP. The Chinese government has actively pursued this policy, lending money by buying up assets such as US government debt, forcing its exchange rate down. However, this is not true in other emerging markets. In particular, since the financial crisis began, there has been an inflow of lending, speculation and investment into India and Brazil. Brazil, India and South Africa all have current account deficits of more than 3 per cent of GDP.[167]

One of the concerns in countries such as India and Brazil is that 'loose' monetary policy in the US and UK – low interest rates and the creation of money through quantitative easing – have injected large amounts of money into the global financial system – which capitalists have tried to lend to emerging markets because of the higher returns available there, as well as using to speculate on commodity markets, increasing price volatility. Traditional policies to try to slow consequent booms down, such as increasing interest rates, do not work as this just attracts more foreign speculators attracted by the higher interest rates.

The US, Eurozone and the UK accounted for 70 per cent of capital outflows in 2010.[168] South Africa, India and Brazil have all asked for greater discussion of policies in countries which are the source of capital, in helping to globally regulate financial flows.[169] To try to stop its exchange rate appreciating Brazil has recently been taxing foreign short-term lending,[170] but President Rouseff has also been asking Northern countries to stop the *"tsunami"* of speculative capital flowing into her country.[171]

Kevin Gallagher from Boston University has found evidence that the Brazilian taxes *"are associated with a lower level of appreciation and an eventual slowing of the rate of appreciation of the currency"*. Gallagher also found that the tax gave Brazil more ability to set central bank interest rates in response to domestic circumstances, rather than needing to worry about higher interest rates attracting even more speculative dangerous money.[172]

6. Regulating finance

Options for regulating the movement of money between countries exist. They were used extensively in the period following the Second World War, and in many emerging markets in recent years. The IMF has recently backtracked on its opposition to regulations, though still sees them solely as a last resort. Other barriers to countries adopting regulations remain, especially in trade treaties, and the lack of cooperation for monitoring the movements of money, and helping to enforce controls, in financial centres such as the UK.

6.1 Capital account regulation

The capital account is any financial transaction across borders which buys or sells assets, or creates future obligations such as debt payments or transfer of company profits out of the country. Forms of regulating the capital account were standard across the world from the 1940s until the 1970s. They have mostly been removed in western economies. Countries such as China have continued to use regulations. Notable examples of capital account regulations being used or reintroduced include Chile in the 1990s, Malaysia during the 1990s Asian Financial Crisis, Iceland since 2008 and Brazil since 2009.

The aim of regulations on financial inflows is to stop booms, exchange rate appreciation, asset prices shooting-up and the Dutch Disease. Controls on outflows are most common in a crisis to prevent a crash. They may also be useful to try to tackle more ongoing capital flight and tax avoidance. Regulations on capital transactions can apply to private debt, public debt or both, as well as other financial flows such as the purchase of shares. Like putting a speed bump in the road, the aim of regulations on capital movements is to slow them down and make them less dangerous. Professor Carmen Reinhart and former IMF Chief Economist Kenneth Rogoff argue: *"Periods of high international capital mobility have repeatedly produced international banking crises, not only famously, as they did in the 1990s, but historically as well."*[173]

Capital account regulations are very varied, but include limits on foreign ownership of companies and shares, limits on foreign ownership in certain sectors, controls on foreign exchange transactions, requiring investors and lenders to deposit money at a central bank at no interest, requiring buyers of government bonds to be domestic residents, taxing foreign loans or limiting foreign currency derivatives issued by local banks. Which regulations are used will vary in terms of what they are trying to achieve.

Regulating lending and borrowing between countries involves lots of specific policies to rein-in speculative capital, whilst allowing countries access to lending which is genuinely necessary and useful. Using such policies is a pragmatic process, but to work best requires information sharing and cooperation between countries. Below we look at some specific blocks and challenges which need to be tackled.

6.2 Blocks to regulating finance

Since the 1970s, powerful western countries have sought to remove and prevent countries from bringing in regulations on money moving across borders. This has led to a range of blocks on countries bringing in regulations, from international institutions such as the IMF, and multilateral and bilateral trade agreements; from the WTO to the EU.

6.2.1 The IMF

At its creation, the IMF was part of a system of global capital account regulation. To this day, its articles of agreement not only allow countries to use regulations, but even require them to prevent IMF resources being used *"to meet a large or sustained outflow of capital"*.[174] However, in the 1990s the IMF pushed for new powers to force all its member countries to get rid of regulations on capital. Following the Asian Financial Crisis, this was rejected by middle income countries.

Since the most recent financial crisis, there has been some change of position within the IMF. A staff position note in 2010 said *"capital controls – in addition to both prudential and macroeconomic policy – is justified as part of the policy toolkit to manage inflows."*[175] The IMF has 'allowed' Iceland, Latvia and Ukraine to bring in controls on outflows to help with their debt crises.

However, the Fund's proposed policy framework put forward in February 2011 only recommends controls as a last resort option once all other policy tools have been exhausted.[176] It is thought western economies such as the US and UK in particular were opposed to the IMF policy going further, whilst middle income countries rejected the proposed framework due to concerns over giving the IMF a role in capital account regulations.

Larger emerging markets are currently in a position where they can ignore the IMF's 'policy advice'. But the IMF still has a large say in economic policies in debtor countries, whether in Africa, Latin America, Asia or Europe.

6.2.2 Trade agreements

Bilateral trade and investment agreements between countries often rule out the use of regulations on capital. These are treaties between two states or regional economic groupings. There are thousands of such treaties in place, many of which contain provisions for the free movement of capital. Kevin Gallagher has said that a reason why Brazil has recently brought in regulations to deal with capital inflows, and Chile and Colombia have not, is that unlike Brazil *"Chile and Colombia have trade treaties with the US that require all capital flowing between borders moves 'freely and without delay'."*[177]

Within the World Trade Organisation (WTO), the General Agreement on Trade in Services (GATS) potentially affects regulations too. GATS is a trade agreement which makes it illegal at the WTO for a government to introduce measures which favour domestic producers or investors in services, over foreigners. If countries have made commitments under GATS to liberalise financial services, then it may be illegal under WTO rules for them to introduce any measure which negatively impacts on foreign capital over domestic capital.

The current GATS provisions were agreed in 1994. Rich countries have been pushing for the last decade for developing countries to make new commitments – including since the financial crisis[178] - though the negotiations appear to have ground to a halt several years ago.

Article 63 of the Lisbon Treaty of the EU prohibits *"all restrictions on the movement of capital between Member States and between Member States and third countries"*.[179] This makes it illegal under EU law to both regulate the movement of money between EU member states, but also requires that EU members do not regulate transactions with other countries as well. This in theory blocks any EU countries introducing any form of regulation on capital movements across borders.

6.3 The need for international cooperation

Whilst regulations on capital movements can be introduced unilaterally, they would be more effective with greater global coordination. By-passing and avoiding regulations is easier if regulators only have access to information in the source or destination country, but not both. Policing regulations most effectively requires information about financial holdings to be shared between source and destination countries.[180] Even if governments in source countries such as the UK are not yet convinced of the need to regulate their own capital inflows and outflows, they could share information with other authorities to enable better policing of other countries regulations.

7. Conclusion

The global movement for debt justice was inspired by the ancient concept of jubilee, a time every 50 years when debts owed between people would be cancelled, fields left fallow, slaves released, and land returned to its original owner. This movement has led to billions of dollars of debt being cancelled.

But, despite these achievements, the cycle of debt crises has continued. A self-serving financial system has brought the global economy to its knees and impoverished people across the world continue paying the price for this excess. To bring justice, a true jubilee cannot just be a one-off cancellation of old debt – important as this is – but a continual process to prevent debt destroying lives, livelihoods and relationships. The financial system must be brought under control, so that it becomes a servant of people, not our master.

7.1 Debt cancellation

Impoverished countries remain vulnerable to high debt burdens and changes in the movement of money across the world. Debt cancellation over the last decade has worked on its own terms. Debts and debt payments have been reduced. This has enabled governments to spend more of their own resources on other activities, such as investment in public services, as well as access more borrowing again. Moreover, increases in commodity prices, economic growth and transfer of economic activities from the public to private sector have also reduced the relative size of public debts for many countries.

When debts are too high they need to be cancelled. People across Latin America and Africa suffered for many years from paying huge debts, and the austerity policies which were implemented in the name of reducing debt. The debt cancellation of the last decade finally freed several countries from this trap. Yet other countries and peoples are still trying and failing to pay a debt burden which was first created thirty years ago. People across Europe today are suffering from austerity as debt payments flood out of the country, whilst economies collapse and the debt remains or grows worse.

This report has not sought to produce a list of all the countries which should have their debt reduced. There is no one measure which can list countries whose debts need to be cut. Having said this, one suggestion made by Michael Hudson is that *"When an economy is able to pay debts simply by borrowing new money or selling off assets, the debts should be deemed to have gone bad and be written down."*[181]

Some debts should be written-off because they were odiously or illegitimately contracted – from loans to General Mobutu in the Congo, to a previous Irish government guaranteeing all reckless loans to the bankrupt Anglo-Irish Bank. Moreover, as countries such as Greece, Ireland and Portugal demonstrate, governments can end up with large debts which need to be reduced in countries at all income levels.

What is needed are processes for deciding when debts should be cancelled, and powers to make lenders – whether international institutions, governments or the private sector – comply. Campaigners across the world have advocated debt audits; a process which would publicly examine where the debt comes from to find out who did and did not benefit from loans. The public examination could lead to democratic cancellation or default on particular debts which were odious, illegitimate, or simply a result of reckless lending. Crucially, a debt audit can learn the lessons from past lending and borrowing, and empower civil society to hold a borrowing government to greater account in the future, and help prevent debts building-up again.

For many years debt campaigners have argued for a debt court; a fair and transparent arbitration mechanism to effectively allow sovereign states to seek debt cancellation when debts are too high. A court should be independent of debtors and creditors. States would be free to apply to the court, which hears evidence from participants including civil society. As soon as a state applies to the court, there would be a moratorium on debt payments.

Loans found to be odious or illegitimate are written-off. The remaining debt is reduced to a level which is seen to allow a country to protect human rights and ensure the basic needs of its citizens are met. The possibility that reckless lenders would not get repaid should in turn make them more responsible in their lending.

The creation of such a court would be an alternative to IMF bailout loans, which as Michael Hudson states, are simply borrowing new money to pay debts which have gone bad. The possibility that reckless lenders would not get repaid should in turn make them more responsible in their lending. Furthermore, the IMF has a key conflict of interest in being both a lender and providing analysis on countries external debts. As a key creditor, it does not have the independence to give sound advice on the indebtedness of countries and governments.

7.2 Preventing debt crises

Given the succession of debt crises for the last three decades, preventing them from occurring should be top of the political agenda. Most impoverished countries – public and private sectors combined – remain high net borrowers from the rest of the world. Where this constitutes real investment in useful activities it may be beneficial, but there is evidence of speculation and asset stripping making countries more vulnerable. Moreover, the size of public and private foreign debt and obligations in some countries leaves them vulnerable to sudden shocks and changes.

As Keynes and White argued over sixty years ago, the world needs a system for regulating the movement of money across the world – not to prevent useful investment – but to limit speculation and prevent overly large debts and obligations and boom and bust. We do not have all the answers as to how this would work. But the ideology needs to be challenged that banks and financiers should always be able to move money where and when they like hidden from view. A global architecture is needed for monitoring and regulating finance as it moves between countries to prevent speculation, asset stripping, booms and busts, illicit capital flight and tax avoidance, and enhance genuinely useful long-term investment.

Creating this architecture first and foremost needs the political will. It will also need to unscramble the knot of regulations in favour of banks in international treaties which actually prevent governments from regulating financial markets.

Specific measures are also needed to make foreign lending to governments more responsible.
Most external lending to the most impoverished countries' governments continues to be from official lenders such as international institutions and foreign governments (or loans backed by foreign governments). It is extremely worrying that the use of loans appears to be expanding, from multilateral agencies, in new areas like climate finance, new mechanisms such as EU blending of loans and grants, increased use of private sector initiatives, and expansion of trade credit to win business for home exporters.

There may be a role for such foreign lending, but it should be recognised its role should primarily be to purchase imports needed for productive investments, and not leave countries with increased vulnerability or large future obligations. Lenders need to be held more responsible for the debt they help to create. Key principles all lenders should introduce to make their actions more responsible include making sure loans are:

a) Democratic. The loan contraction is agreed by accountable parliaments, and its details and terms have been made fully transparent to allow citizens and the media to debate it prior to agreement.

b) Safe. Environmental and social impact assessments of the loan have been conducted, with any directly affected communities having to give their prior, informed, consent. A right to redress process exists for local communities to challenge negative impacts of the loan, with appropriate sanctions for offending parties, and compensation for those affected.

c) Useful. Both lender and borrower should set out what productive investment the loans will be used for, and this should be independently evaluated. Loans should be independently evaluated before and at completion.

There are projects which by their nature should never involve loans. Military arms are one; they are an unproductive investment, which could result in much harm. Loans for climate change adaptation are another; they are attempts to prevent a situation getting worse, rather than a productive new investment. It is immoral to give loans rather than grants to impoverished countries which are actually due compensation for the damage caused by greenhouse gas emissions elsewhere.

A way to spread the risk of debt between borrower and lender would be to make debt payments by governments dependent on ability to pay. When a loan is given, the different payment schedules could be decided based on the extent of economic growth. The payment of principal and interest would depend on whether these growth targets are met.

Such principles have been considered before. In 1953, the London Agreement was reached to reduce Germany's pre- and post-war debt. It was agreed Germany should repay a maximum of 50 per cent of the outstanding debt, but how much was paid in one year would depend on how much the country could afford to pay. Timothy W. Guinnane from Yale University has summarised that Germany's creditors:

> accepted that the major concern in such discussions should be a country's ability to generate trade surpluses sufficient to cover any payment obligations. Put more cynically, the Agreement implicitly assumes that reducing German consumption was not an acceptable way to ensure payment of the debts.[182]

Countries suffering from severe economic shocks or natural disasters would automatically be protected from debt payments they could no longer afford. If a country prospered as expected when the loan is given, debt and interest could be paid.

The IMF and World Bank recently undertook research into mechanisms for payments to be more contingent on economic developments.[183] Incredibly, the research failed to look into whether the IMF and World Bank should introduce such mechanisms into the loans they give. In reality, as public institutions subsidised by taxpayers, the Bank and Fund should be the first to develop ways to ensure the loans they give do not have to be repaid if a country has suffered from negative economic shocks.

7.3 Enabling countries to use their own resources

This report has touched on many of the ways that relying on foreign loans and other finance can be negative. There is undoubtedly a role for genuinely productive loans and investment. But there is a greater role for people and governments to be able to use the resources they already have. This means mobilising domestic resources – collecting tax revenues and getting local capital invested within the country. This is an alternative to an over reliance on foreign finance which can lead to high debt and foreign obligations.

Monitoring and regulating capital flows are crucial tools to enable countries to make greater use of their own resources. Tackling tax avoidance, evasion and illicit capital flight requires greater transparency and information on how money is moving across the world. In order to achieve this, the world must come together to enable the sharing of information and enforcement of regulations to ensure people in all countries are able to have sufficient access to their own resources.

Appendix

Table 4. HIPC completion point government foreign debt payments, per cent of government revenue, 2000, 2010 and 2014[184]

Country	Debt payments, per cent of government revenue		
	2000	2010	2014 (IMF and World Bank predictions)
Afghanistan	0	0.4	1.8
Benin	16.3	4	4.4
Bolivia	17.5	4.6	4
Burkina Faso	13.2	5.7	5.5
Burundi	10.2	0.9	4.9
Cameroon	24.1	1.4	1.7
Central African Republic	13.8	3	8.6
Congo, DR	0	8.5	3.5
Congo, R	1.5	2.9	1.7
Ethiopia	11.6	2.8	9.6
Gambia	33.3	13.9	12
Ghana	32.9	8.9	6.7
Guinea-Bissau	13.2	3.1	8.8
Guyana	20.1	5.7	8.7
Haiti	11.1	1.7	2.3
Honduras	12.3	3.6	4.2
Liberia	0	1.3	2.2
Madagascar	22.5	4.1	3.2
Malawi	12.2	2.2	3.8
Mali	20.7	4	5.2
Mauritania	24	8.9	9.6
Mozambique	9.6	3.4	8.4
Nicaragua	24.9	7.5	8.2
Niger	11.2	3.8	11
Rwanda	12.8	2.8	6.6
Sao Tome and Principe	N/A	4.1	7.3
Senegal	23	7.4	8.6
Sierra Leone	25.5	6.4	7.7
Tanzania	11.9	1.3	7.9
Togo	8	10.1	7.4
Uganda	7	4.7	3
Zambia	25.3	2.7	2.9

Table 5. Other low and lower middle income country foreign debt payments, per cent of government revenue, 2000, 2010 and 2014[185]

Country	Debt payments, per cent of government revenue		
	2000	2010	2014 (IMF and World Bank predictions)
Angola	37.2	17.1	10.5
Armenia	8.2	5.8	12.3
Bangladesh	13.8	8.8	16.7
Bhutan	6.5	26.6	28.2
Cambodia	5.1	4.5	5.7
Cape Verde	11.9	7.8	7.5
Chad	N/A	5	6.9
Comoros	6.2	7.4	11
Cote d'Ivoire	37.9	9.5	8.2
Dominica	12.6	8.5	16
Georgia	26.1	6.9	8.1
Grenada	6.8	9.4	15.4
Guinea	35.6	4.6	11.1
Kenya	17.7	4.7	4.8
Kyrgyz Republic	20.4	6.9	4.8
Laos	13.3	11.5	10.5
Lesotho	14.8	4.4	4.8
Maldives	10	14.4	10
Moldova	21.8	3.7	3.3
Mongolia	10.8	6.6	2.9
Nepal	16.2	7.4	4.7
Nigeria	47	0.8	0.6
Papua New Guinea	22	4.1	4
Samoa	6.8	7.5	7.5
Solomon Islands	5.1	4.8	2.6
Sri Lanka	22.5	24.1	21.4
St Lucia	14.3	18.1	17.7
St Vincent and the Grenadines	10.3	18.6	15.9
Tajikistan	25	6.5	7.2
Timor-Leste	0	0	0.4
Tonga	8.8	7.3	12.9
Vietnam	19.8	6.9	10
Yemen	4.5	3.4	4.1

Table 6. Other low and lower middle income country foreign debt payments, per cent of government revenue, 2000 and 2010 (those without IMF and World Bank predictions)[186]

Country	Debt payments, per cent of government revenue	
	2000	2010
Belize	41.9	28.1
Djibouti	7.6	9
Egypt	6.6	5.5
El Salvador	13	25.8
Eritrea	1.4	4.6
Fiji	6.1	3.4
Guatemala	15.4	12.7
India	17.9	3.9
Indonesia	27.1	11.9
Morocco	22.2	5.8
Pakistan	17.4	10.5
Paraguay	17.5	13.3
Philippines	35.8	27.1
Sudan	16.6	5.8
Swaziland	7.3	4.2
Syria	9	5.2
Turkmenistan	90.9	4
Ukraine	24.1	6
Uzbekistan	14.7	4.8
Vanuatu	2.8	4.2
Zimbabwe	12.8	1

Table 7. IMF and World Bank assessments of debt distress, March 2012[187]

Risk of defaulting on debts	Countries
In default	Comoros, Cote d'Ivoire, Guinea, Sudan, Zimbabwe
High risk	Afghanistan, Burkina Faso, Burundi, DR Congo, Djibouti, The Gambia, Grenada, Haiti, Kiribati, Laos, Maldives, Sao Tome and Principe, Tajikistan, Tonga, Yemen.
Moderate risk	Bhutan, Central African Republic, Chad, Dominica, Georgia, Ghana, Guinea-Bissau, Guyana, Kyrgyz Republic, Lesotho, Malawi, Mali, Mauritania, Nepal, Nicaragua, Niger, Papua New Guinea, Rwanda, Sierra Leone, Solomon Islands, St Lucia, St Vincent and the Grenadines, Togo.
Low risk	Armenia, Bangladesh, Benin, Bolivia, Cambodia, Cameroon, Cape Verde, Republic of Congo, Ethiopia, Honduras, Kenya, Liberia, Madagascar, Moldova, Mongolia, Mozambique, Nigeria, Samoa, Senegal, Tanzania, Timor-Leste, Uganda, Vanuatu, Vietnam, Zambia.

Table 8. Loans counted as aid (US$ million)

Country	Bilateral 'aid' given as loans or equity[188]	Contributions to multilateral organisations which is ultimately used as loans[189]	Total loans counted as aid
Australia	33	260	293
Austria	6	154	160
Belgium	44	139	183
Canada	0	475	475
Denmark	39	106	145
Finland	39	80	119
France	2,496	1,150	3,646
Germany	2,540	725	3,265
Greece	0	0	0
Ireland	0	32	32
Italy	126	388	514
Japan	8,235	2,229	10,464
Korea, Republic	359	135	494
Luxembourg	0	28	28
Netherlands	0	205	205
New Zealand	0	9	9
Norway	105	154	259
Portugal	218	27	245
Spain	1,027	276	1,303
Sweden	14	272	286
Switzerland	30	241	271
United Kingdom	640	1,263	1,903
United States	0	1,116	1,116
Total	15,951	9,446	25,397

[NB. Due to lack of information, the OECD figures do not cover aid which is given through the European Investment Bank as loans]

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The state of debt

Written by Tim Jones, Jubilee Debt Campaign

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About Jubilee Debt Campaign

Our vision

Inspired by the ancient concept of 'jubilee', we campaign for a world where debt is no longer used as a form of power by which the rich exploit the poor. Freedom from debt slavery is a necessary step towards a world in which our common resources are used to realise equality, justice and human dignity.

Our mission

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

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The state of debt

Putting an end to 30 years of crisis

Thirty years of debt crisis have devastated livelihoods across the world. Debt cancellation finally released some countries from one debt trap, but the First World Debt Crisis shows yet again why reckless lending and borrowing need to be governed and controlled. The First World Debt Crisis has led to government debts in impoverished countries increasing, and unregulated opaque private lending also risks increasing inequality and crisis. We need a new system for monitoring and regulating the way money moves across the world, so that finance works for people.

www.jubileedebtcampaign.org.uk