Dear Secretary of State,

I am very concerned by the boom in lending to impoverished countries, which has doubled since the financial crisis.

Global campaigning against the injustice of developing country debt has led to $130 billion of debt being cancelled. Millions more people now have healthcare and education as a result. But many countries, from Jamaica to the Philippines, had their unjust debts ignored, and now debt levels in countries where debts were cancelled are rising once again. We did not work so hard for debt cancellation to see new irresponsible lending repeat the mistakes of the past.

I am concerned that a significant portion of the lending boom is coming from the UK via the World Bank, and is counted as aid. I am further concerned that you are considering a return to direct UK loans, which would also count as aid. **I call on you to:**

1) Reject calls to restart UK loans, and direct UK aid money away from lenders like the World Bank to institutions that give grants instead.

2) Require all lenders funded by the UK, including UK Export Finance, the World Bank and IMF, to sign up to responsible lending guidelines, including public scrutiny of loan terms before contracts are signed.

3) Call for a fair, transparent and independent process for resolving debt crises, to show banks they won't be bailed out for reckless loans.

Please don't let a new debt crisis develop on your watch.

Yours sincerely

Name ____________________

Address ____________________

____________________

Postcode ____________________

Affix stamp here

SECRETARY OF STATE

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

22 WHITEHALL

LONDON

SW1A 2EG

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If you're not making a donation, you can also email your order to **info@jubileedebt.org.uk** or phone **020 7324 4722**.

## TAKE ACTION

**Please tell the Secretary of State for International Development not to turn the clock back.**

### 4. Existing debt problems

Existing high levels of public debt are another major cause of the need for borrowing by developing countries. In response to the last developing world debt crisis, we mobilised as part of the global Jubilee movement and helped secure $130 billion in debt cancellation for 35 countries, mainly in Africa. However, many countries – including Jamaica, the Philippines, and El Salvador – were never covered by the scheme. These countries, considered 'not poor enough' to qualify for debt relief, have been forced to borrow more money just to service existing debts, seeing their overall debt burdens spiral further and further out of control.

"And to avoid another debt crisis hard on the heels of the first, poor countries need to be given more grants, rather than seeing their debt burden piled even higher with yet more loans."

*Make Poverty History Manifesto (2005)*

"Lending to emerging market [developing country] governments is very attractive at the moment because we get significantly higher returns than in Europe or the US."

*Debt trader (2014)*

## HOW THE AID BUDGET IS SPENT

**Much UK aid successfully helps tackle global poverty, not least via the Global Fund to Fight AIDS, TB and Malaria, which has so far saved the lives of 8.7 million people. But a shift from UK aid to loans would add to growing concerns over the way parts of the aid budget are spent.**

### Massaging the figures

**The UK government has already been using loans recklessly to massage the aid figures. £255 million is being lent to countries to deal with the impact of climate change, despite the UK having a legal obligation to provide new and additional public finance to developing countries to help them tackle climate change. Recipients of these climate loans include Grenada, which is now in default on its huge debt and was already assessed as having a high risk of debt distress when its climate loan was agreed.**

### Aid for UK companies

**The UK government is keen to expand the amount of UK 'aid' being invested in private companies. Significant amounts are already used in this way through CDC, an off-shoot of the Department for International Development. CDC has already been involved in a string of dodgy deals, including investing in an aluminium smelter which returned mass profits to foreign companies whilst being exempt from virtually all taxes in Mozambique. In other cases, CDC hands money to private equity funds with no knowledge of where it will be invested.**

**Loans also create more scope for using aid to benefit British business (though 'tied aid' is no longer formally allowed). Of the £500 million of UK aid spent on consultants in 2011, 92% of contracts went to British firms, with just one company out of 117 being from a developing country.**

# DEBT NEWS

## ROWAN WILLIAMS CALLS FOR MONEY-LENDERS TO BE HELD RESPONSIBLE

More than 300 people came to our Life Before Debt conference in London on 29 March to explore the risks of future debt crises posed by burgeoning banking, personal and sovereign debt around the world, as well as the morality of an economic system where debt is routinely used by the rich to exploit the poor.

Dr Rowan Williams, the former Archbishop of Canterbury, argued that without policies to prevent it, lending will create increased inequality, saying: "There is always going to be a danger of a spiral of asymmetry, which is where the gap between creditors and debtors gets wider and wider. There is no particular reason why this should ever stop, there is unless we decide to try and stop it. We have to put in place policies to limit that spiral."

Also speaking at the conference were European and international debt campaigners including US academic and activist Andrew Ross, an organiser with Strike Debt. He said that the scale of personal debts today raises questions about whether modern society is on its way to "debt serfdom". He argued that large numbers of people in the US and Europe are increasingly being forced into debt to provide for their basic needs and social goods like food and education because of a lack of income and cuts in public services. He also challenged the morality of lenders, saying: "In some cases it is more virtuous to refuse to repay your debt."

Njoki Njoroge Njehû, a debt campaigner from Kenya and member of Jubilee South, questioned who the real moral debtors are. Talking about debts owed by developing countries, she said: "If you just talk about the financial debt, the balance shows one thing. But if you include the ecological, historical and social debt, it shows quite another."

- See videos and a report on the conference at: **www.jubileedebt.org.uk/lifebeforedebt**

BELOW: DR ROWAN WILLIAMS JOINED OUR CALL FOR AN ECONOMIC SYSTEM THAT PUTS LIFE BEFORE DEBT

Emma Marshall


Steven Woodward

## 100 MPS BACK FURTHER ACTION ON VULTURE FUNDS

Thank you very much to everyone who sent the vulture funds postcard to your MP in the last *Drop It!* More than 100 MPs have now signed Early Day Motion 666 in support of further national and international action on vulture funds. We await a response from the Chancellor, George Osborne, to the campaign.

Meanwhile, the 'debt trial of the century' is continuing in the United States, as two vulture funds seek a multi-billion dollar payout on debts dating back to Argentina's 2001 default. Argentina is appealing the award to the Supreme Court, with multiple interested parties from the US government to the IMF to our partners Jubilee USA have submitted legal arguments in favour of Argentina.

- Find out the latest at: **www.jubileedebt.org.uk/vulturefunds**


NASA

## PHILIPPINES SPENDS $4 BILLION ON DEBT PAYMENTS AFTER SUPER-TYPHOON

In the aftermath of the devastating super-typhoon which hit in November, we have been working with debt campaigners in the Philippines to raise awareness of the amount the country is forced to spend on debt repayments, and call for an audit of the country's debts. More than $22 million leaves the Philippines every day in payments on debts which date back to the brutal rule of Ferdinand Marcos in the 1980s. What's more, the World Bank and IMF have offered $1 billion of new loans to the Philippines since Typhoon Haiyan, calling it 'typhoon aid'.

The campaign received a boost in April when UN human rights expert, Cephas Lumina, endorsed the call for debt cancellation and grants not loans, as did the *Philippine Daily Inquirer*, the country's leading English-language newspaper.

- Find out more and take action at: **www.jubileedebt.org.uk/philippinesaction**

## ABOUT US

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

Jubilee Debt Campaign

@dropthedebt


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Summer 2014

## Don't turn the clock back

JUBILEE DEBT CAMPAIGN


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# A NEW LENDING BOOM

History is repeating in the global economy. With interest rates low and investors hunting for returns, lending to the most impoverished has doubled since the crash.

The previous era of irresponsible lending trapped countries in a spiral of debt from which it was impossible to escape. It set back the fight against global poverty by two decades. Thanks to global campaigning, $130 billion of debt was cancelled for 35 countries, mainly in Africa. Millions more people won access to healthcare and an education. But just as many countries never broke free from debt.

Already, the UK is fuelling the lending boom via the World Bank. Now an influential committee of MPs want the UK itself to turn back the clock. But irresponsible lending today threatens another bust in the future, which could once again impoverish millions of people. Together, we must sound the alarm, and help stop a new debt crisis before it's too late.

## PLANS TO SHIFT UK AID TO LOANS

In February this year the UK Parliament's International Development Committee of MPs recommended that UK aid "should shift away from grants and towards a system of loans". The Committee is recommending a reckless change that the Department for International Development is already known to be considering.

The UK government already gives a significant amount of the aid budget to international bodies like the World Bank to use for lending. For example, about $1.3 billion of what was counted as UK aid went as loans from these international financial institutions in 2012. However, the UK doesn't currently lend money to developing countries directly. Aid given directly by the UK is currently grants – most people's understanding of the word 'aid'. But if the recommendations of the International Development Committee were implemented this would change significantly.

The Committee has proposed two major changes to aid given directly by the UK:

### 1. Replacing ALL aid to lower middle income countries with loans

These are countries like Ghana and Pakistan, with an average annual income of between £650-£2,600 per person per year.

### 2. Replacing SOME aid to the poorest countries with loans

Including countries like Mozambique or Ethiopia where average earnings are below £650 per person per year.

Essentially, this means that our government is seeking to replace overseas development aid with loans to some of the poorest countries in the world, including countries that are already in the midst of debt crisis or are rapidly approaching this situation.

Of the 29 countries that the UK currently gives aid directly to, half of them are already in default on their debts, or the IMF and World Bank judge that there is a high or moderate risk that they could be. The other half include countries with rapidly increasing debt burdens, like Ethiopia, Mozambique and Tanzania.

This move would be in breach of the Conservative Party's own policy at the last election, where it committed to, as far as possible, give aid as grants not loans.

FIGURE 1: NEW LOANS TO LOW-INCOME COUNTRIES


"We will continue, as far as possible, to give aid as grants not loans, and will encourage other donors such as the World Bank to give aid for social objectives, whenever possible, as grants."

*A Conservative Agenda for International Development, 2009*

## WHAT'S AT RISK? THE NEW BOOM IN LENDING TO THE GLOBAL SOUTH

A shift from UK aid to loans would contribute to the highly concerning boom in lending to developing countries that is already taking place. This trend bears striking resemblance to the 1970s lending boom which led to the major debt crisis of the 1980s and 1990s across large parts of Africa, Asia and Latin America.

Globally, loans to the most impoverished countries have doubled in the last 5 years, while foreign lending to countries in sub-Saharan Africa has more than doubled over a similar period. And the situation looks set to get a lot worse. The World Bank wants to increase its lending to developing countries by $100 billion over the next ten years.

The last boom-bust cycle of lending and debt repayments lead to two lost decades of development for many developing countries and plunged millions of people into extreme poverty and deprivation. 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.

The current lending boom is coming from three major sources: the big international financial institutions like the IMF and World Bank; the governments of wealthier countries like France, Germany and China; and private lenders like banks and other financial institutions. Almost half of the new lending to low income countries is coming from the IMF and World Bank (see figure 2). And outrageously, governments are allowed to label loans as 'aid' if the interest rate is less than 7%.

High levels of national debt are not necessarily a problem. Sovereign debt can provide funds for important long-term investment in public goods like health, roads and schools. So long as the debts can be serviced and repaid by government revenue from tax and other income sources this can make a lot of economic sense. But high levels of debt can become a problem if the overall scale of lending and borrowing is too great, if borrowed money is not invested productively, or if the borrowing countries are vulnerable to economic shocks.

The developing world debt crisis of the 1980s and 1990s was triggered by falls in global commodity prices and hikes in interest rates which meant that poor countries were no longer able to service the very high levels of debt they had accrued in previous decades. Much of the lending was irresponsible, with little or no concern as to whether the resources were being invested productively.

The current boom in lending means that debts are increasing rapidly, and little is being done to prevent the boom-bust cycle being repeated. Furthermore, despite a succession of debt crises on all continents over the last thirty years, there is still no international mechanism for resolving sovereign debt crises. This means that if the current boom does drive countries into debt crisis, there is no effective way to deal with debt problems they face.

### WHEN DO LOANS COUNT AS AID?:

**Lenders are allowed to count the entirety of a loan as 'aid' if the interest rate is less than 7%.**

DFID – UK Department for International Development

LEFT: LIFE-SAVING EMERGENCY SUPPLIES MAKE UP 8% OF THE UK'S AID BUDGET , NOW REBRANDED AS UK AID. MORE THAN $1.3 BILLION OF WHAT WAS COUNTED AS UK AID IN 2012 WAS LOANS VIA THE WORLD BANK.

## DRIVERS OF THE LENDING BOOM

The drivers of this current lending boom are the same as those which led to the first developing world debt crisis and relate to major core problems with the global economy.

### 1. Irresponsible lending

Low interest rate policies in the Western world aimed at stimulating economic activity at home are helping to fuel potentially unsustainable booms in the global South. Governments and banks can borrow dollars, pounds and euros at low interest rates, then lend them to developing countries at higher rates. France, Germany and the EU received an estimated €590 million of interest on loans counted as aid in 2012.

### 2. Tax dodging

There continues to be a massive outflow of finance from developing countries which would otherwise be available to governments to invest in public services and infrastructure. Developing countries lose more money in the form of tax dodging by multinational corporations and other economic actors (Christian Aid estimates $160 billion) than the $100 billion they receive in aid each year. Without this revenue, countries must borrow to pay for basic public goods and also service existing debt.

### 3. Bad terms of trade

Many of the most impoverished countries continue to be dependent on exporting raw materials, such as metals and cash crops, in order to earn income. Years of structural adjustment – policies such as privatisation and trade liberalisation – have made many countries even more dependent on these products. This reliance makes countries more exposed to boom-bust cycles and, also concentrates revenues in the hands of multinational companies and local elites, rather than the wider public.

FIGURE 2: PROPORTION OF LENDING TO LOW-INCOME COUNTRIES


## COUNTRIES IN FOCUS

### GHANA

**Ghana had $7.4 billion of debt cancelled in 2004 and 2005. Annual foreign debt payments fell from over 20% of government revenue to less than 5%. However, a boom in lending to the West African country means the government's foreign debt payments are predicted to reach 20% of government revenue once again in ten years time.**

### JAMAICA

**Jamaica has been in a debt crisis for over 40 years. It has continually received IMF bailout loans to pay off original reckless lenders, whilst the debt has remained with the Jamaican people. Considered 'too rich' for debt relief, today almost 30% of government revenue is spent on foreign debt repayments. Meanwhile, the number of women dying in childbirth has almost doubled in the last 20 years. The IMF's latest solution? More loans.**

### GRENADA

**Last year the Caribbean island of Grenada took a brave stand against its enormous debts, defaulting and calling publicly for debt cancellation. The debt has ballooned since the removal of EU trade preferences for its bananas, the impact of two massive hurricanes in the 2000s, and a sharp decline in tourism since the financial crisis. 40% of the population live in poverty, while more than 30% of government revenue had been going to foreign debt payments.**

Read more on our recent delegation to Grenada and Jamaica at:
**www.jubileedebt.org.uk/blog**

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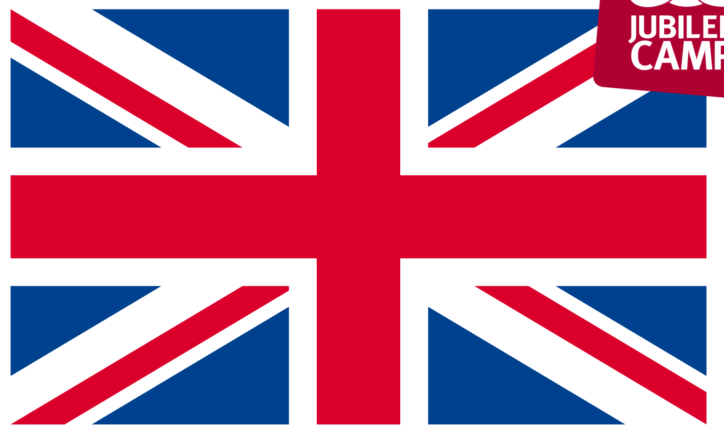

# debt crisis

## from the British aid budget?


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