A legacy of dodgy deals

Auditing the debts owed to the UK

JUBILEE DEBT CAMPAIGN

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Introduction

UK Export Finance (formerly ECGD) guarantees loans for foreign companies and countries to buy partly British made exports.[1] Usually, the loan itself is made by a bank or other financial institution. If any loan repayments are missed by the buyer, UK Export Finance bails out the original lender, then claims the debt is owed directly to it. The loan would not take place or would be at a higher interest rate if UK Export Finance did not guarantee it.

In the late 1970s and early 1980s, a series of debt crises began, which have continued to this day. People on all continents have been affected as large reckless lenders have been bailed out, whilst ordinary people have been made to pay the price. Debt crises in the 1980s, 1990s and 2000s caused two or more 'lost decades of development'. In sub-Saharan 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.[2]

Between the end of the Second World War and 1970, just six governments defaulted on debts. Since lending and finance began to be deregulated in the early 1970s, 129 defaults have taken place. Many of these led to UK Export Finance paying off banks, making a large loss, then claiming debts from the government of the country concerned.

For many years, the UK government said it was not possible to find out what these loans were originally for. Jubilee Debt Campaign refused to accept this. Over the last five years we have submitted parliamentary questions, tried all sorts of wordings in freedom of information requests, and had a researcher visit the UK's national archives.

This released some scandalous information about UK loans – from tanks used by Indonesian dictator General Suharto against his own people, to warships and helicopters sold to the 1970s military junta in Argentina, which were used to invade the Malvinas (Falkland Islands). Along with letters, postcards and emails from thousands of people, and the support of 200 MPs in the British parliament, this forced the UK government to finally conduct its own investigation into what the original loans were for.

In November 2012, UK Export Finance released the results, which showed what loans were for by broad category such as 'defence', 'communications' and even 'materials'. It did not indicate what the specific exports were, nor crucially the date they were made. So Jubilee Debt Campaign recruited a team of almost 100 Dodgy Deals Investigators, who wrote to their MPs asking for questions to be asked in parliament, and submitted Freedom of Information requests.

Some questions were never answered, others were blocked, others were responded to with non-answers. But some revealed more information.

This report shows what we now know about the debts still owed to the UK government. They reveal a horrendous history of lending which propped-up repressive regimes, fuelled conflict across the world and knowingly contributed to unsustainable debts. But it is just a small snap-shot of what UK loans have been used for. Loans which were never defaulted on are not covered. Debts which have now been repaid, or in some cases cancelled, are absent.

Of the debt owed to the UK, at least 75% is illegitimate (see Table 1 on page 4). This is based on the debt being at least one of:

- From loans for arms sales to repressive regimes
- From loans to support repressive regimes
- Usurious unjustified levels of interest
- For corrupt projects
- For projects which abused human rights

This does not mean that the other 25% of the debt is legitimate, but the 75% covers all debts that we have found which come from loans which were at least one of the above. In this report, in the main section we present case studies of the countries for which most information has been gathered on the history of dodgy deals. In the final section on 'Other countries' we present the information we have for all the remaining countries which owe UK Export Finance debts to the UK, whether or not these debts have been identified as illegitimate.

This is not to say that we think all these debts should be cancelled straight away. There are clearly those that should, where the original borrowing regime has now been replaced by a more legitimate government such as in Argentina, Indonesia, Ecuador and Kenya.

In other cases the repressive regime is still in power. Whilst the loans should not have been given in the

Footnotes

1 In Autumn 2013, UK Export Finance started directly giving some loans as well.

2 The percentage increase was from 51.5 per cent of the population to 59.4 per cent. World Bank Global Development Finance database.

3 Though the UK government has cancelled half of Burma's debt.

Table 1: Summary of illegitimate debts owed to the UK government

Country	Amount owed (as of end-2014) (£ million)	Arms loans to dictators	Other unspecified loans to repressive dictators	Other debts illegitimate	Percentage known to be illegitimate	Total known to be illegitimate (£ million)
Antigua and Barbuda	1.34					
Argentina	43.16	38%	62%		100%	43.16
Bosnia and Herzegovina	1.11					
Burma	26.8		100%		100%	26.80
Cuba	91.54					
Dominica	6.69					
Ecuador	20.32	56%			56%	11.38
Egypt	51.04	23%	77%		100%	51.04
Grenada	1.80					
Indonesia	246.41	74%	26%	5% (Garuda corruption)	100%	246.41
Iraq	229.50	70%	30%		100%	229.50
Iran	41.93	100%			100%	41.93
Kenya	11.43	11%		68% (Turkwell Dam corruption)	79%	9.03
North Korea	5.86		100%			
Pakistan	5.04					
Serbia	159.11					
Seychelles	1.11					
Somalia	52.15			100% (no continuity of government)	100%	52.15
Sudan	726.03		100%	80% (usurious interest)	100%	726.03
Vietnam	3.64					
Zimbabwe	222.04			11% (Police Land Rovers)	11%	24.42
Total	**1,948.05**				**75%**	**1,461.85**

first place, campaigners in such countries may not want the debt cancelling yet, such as in Burma,[3] North Korea, Sudan and Zimbabwe. In Zimbabwe, the Zimbabwe Coalition for Debt and Development has been calling for an audit into the debt to establish what loans were used for and whether they should be repaid. A debt audit, whether for a borrower or creditor country, is a tool both to identify whether debts should be paid, and perhaps more importantly, to increase transparency over borrowers and lenders to prevent such dodgy deals taking place again in the future.

The UK government is still creating unjust debts through new dodgy deals. In June 2013, UK Export Finance revealed that it had backed loans totalling £4.3 billion. This was its highest amount for at least nine years,[4] and included a loan of £2 billion for the absolute monarchy in Oman to buy Typhoon fighter aircraft from BAE Systems.[5]

Under the Small Business, Enterprise and Employment Act, which is which received Royal Assent on 26 March 2015], UK Export Finance's role and ability to lend is being expanded further.

Other potentially dodgy deals in recent years include:

- Up to £1 billion of loans to the Brazilian oil producer Petrobras to undertake deep-sea oil drilling, despite a 2010 Coalition Agreement pledge for UK Export Finance to 'develop and export innovative green technologies around the world, instead of supporting investment in dirty fossil-fuel energy production', and extensive current corruption allegations against Petrobras. Other fossil fuel projects UK Export Finance has supported since 2010 include coal mines in Russia.
- £2.7 million of loans to the government of Pakistan, which is already spending more than 20 per cent of government revenue on foreign debt payments, including for the Pakistan Navy to buy a hovercraft.
- £9.6 million of loans to the Indonesian government, including a £4.2 million loan for the Ministry of Defence to buy 'Intelligence equipment'.
- A £59 million loan to the government of Ghana for a police hospital, even though Ghana is judged by the IMF and World Bank as at moderate risk of not being able to pay its debts, and is now in receipt of bailout loans from the IMF to enable previous lenders, such as the UK, to be repaid.

This resurgence of unjust lending makes it all the more urgent for the UK government to publicly audit the remaining debt, cancel the unjust loans, and bring in proper standards and policies so that it only lends responsibly in the future.

The UK government should:

- Publicly audit all the debts owed to it, and cancel those which come from unjust loans.
- Adopt a prohibitions list of activities that will not be supported by UKEF because they are not conducive to sustainable development, including the export of arms.
- Amend the Act of Parliament governing UKEF to include a 'duty of care' clause with regard to the human rights of, and environmental impacts on, those adversely affected by the UKEF-supported projects.
- Implement transparent management and monitoring mechanisms to ensure that UKEF complies with wider government policy on human rights, the environment and sustainable development.

Footnotes

4 ECGD only started making its Annual Report publicly available in 2003/04.

5 UK Export Finance. (2013). *Export Credits Guarantee Department: Annual Report and Accounts 2012–13*. June 2013.

Indonesia

- Debt owed to UK Export Finance end-2014: £246.41 million
- Debt payments: £254.33 million to be paid between 2015 and 2021

Between 1968 and 1998 Indonesia was ruled by General Suharto, who came to power in a military coup to prevent the growth of the Indonesian communist party. On coming to power, Suharto oversaw a mass genocide in which over a million people were killed, because they were claimed to be 'communists'.

Throughout his rule, Suharto was supported by the West because of his fervent 'anti-communism'. Gross violations of human rights and violence continued throughout his rule, including violent repression of minorities in Aceh, West Papua and East Timor.

UK support for Indonesia also continued throughout this time. Between 1993 and 1996, UK Export Finance backed loans for the Indonesian government to buy Hawk aircraft from British Aerospace, and in 1995 and 1996 for Scorpion Tanks and Stormer Armoured vehicles from Alvis. In 1998, then UK Foreign Secretary Robin Cook admitted that weapons supplied by the UK were used against civilians.[6] The Hawk jets and Scorpion tanks were used when attacking resistance groups in Aceh.[7]

Indonesia's government debt increased through the 1980s, and by the late-1980s, government foreign debt payments were a huge 30 per cent of export revenues.[8] Debt payments continued to be made in full throughout this time. With high but falling debt levels in the 1990s, there was a private lending boom to Indonesia, along with other countries in the region such as Thailand. In 1996, this boom turned to bust as the private lending and borrowing stopped, and foreign financiers rushed to take money out of the region. In Indonesia, the economy shrank by 14 per cent between 1997 and 1999.

In the aftermath of the crisis, mass protests erupted against Suharto's rule, which led to his resignation in May 1998. In 2004, Indonesia held its first Presidential election.

With the economy in free-fall, the Indonesian government defaulted on its debts, and reached new agreements with the likes of the UK government over when debts would be repaid. Between 1998 and 2002, three separate agreements were reached to delay debt payments, but there was no reduction in the amount of debt owed.[9]

The figures now released by the UK government reveal that at this time, the total amount of debt owed was £853 million ($1.4 billion), of which 74 per cent was for 'defence' equipment, £633 million.[10] The majority of this is the Hawk aircraft exports (60 per cent of the arms sales debt, so 44 per cent of the total debt).[11]

At the end of 2004, Indonesia was hit by the Indian Ocean Tsunami after an earthquake off the coast of Aceh. Over 200,000 people died in Indonesia. For 2005, the UK and other western creditors, but not the US, agreed to delay payments coming due that year, but once again did not reduce any of the debt owed.[12]

UK Export Finance have put the other 26 per cent of debt owed into a variety of categories, including the all-encompassing category of 'equipment and services' (9 per cent), power, communication and aircraft.

Some of the loans for aircraft were for Rolls Royce engines to the partly state owned Garuda airlines, sold between 1992 and 1997, which UK Export Finance has admitted resulted in the creation of debt owed by the Indonesian government.[13] A former Rolls Royce employee, Dick Taylor, has since alleged that Roll Royce gave General Suharto's son £13 million and a car to get Garuda to buy the engines.[14] The Indonesian government defaulted on the debt payments in August and November 1998, when the total debt owed was $66 million.[15]

The Indonesian government has been paying off the remaining debt for the past few years, and it has now fallen from £853 million at the time of defaulting after the Asian Financial Crisis, to around £250 million today. It is all due to be paid off by 2021.

Footnotes

6 Cook, R. (1998). Interview on BBC Radio 4 Today programme. 14/05/98.

7 Select Committee on Foreign Affairs. (2004). Foreign Affairs – Sixth report. 05/05/04.

8 Calculated from World Bank. Global Development Finance database.

9 http://www.clubdeparis.org/sections/pays/indonesie/viewLanguage/en

10 UK Export Finance. (2013). Sovereign debts: Explanatory note. November 2013.

11 McCartney. (2007). Parliamentary answer to Jeremy Corbyn MP. Hansard Column 70W. 12/03/07.

12 http://www.clubdeparis.org/sections/traitements/indonesie-20050510/viewLanguage/en

13 UK Export Finance. (2013). Request for information under the Freedom of Information Act 2000: FOI(13)36. 12/06/13.

14 Neate, R. and Monaghan, A. (2013). 'Rolls-Royce Chief Mark King resigns'. *The Guardian*. 02/05/13. http://www.guardian.co.uk/business/2013/may/02/rolls-royce-chief-mark-king-resigns

15 UK Export Finance. (2013). Freedom of Information Response FOI(13)45.

Argentina

- Debt owed to UK Export Finance end-2014: £43.16 million
- Debt payments: £46.95 million to be paid between 2015 and 2019

In 1976 there was a military coup in Argentina. The subsequent 'dirty war' from 1976 to 1983 was a period of state terrorism. Between 9,000 and 30,000 people were killed or 'disappeared'.[16] Political parties and trade unions were banned, whilst religious groups had to apply for approval from the state.

Documents from the UK National Archives unveiled by the Jubilee Debt Campaign reveal that some of Argentina's debt comes from loans to the military junta to buy:

- two Type 42 Destroyers
- two Lynx helicopters
- twenty-two Sea Dart missiles.

It is likely other arms sales from the UK to Argentina were also paid for by UK government supported loans. The UK government subsequently claimed that 38% of Argentina's debt to the UK comes from arms sales,[17] all of which were prior to the return of democracy in 1983.

In 1979 then Foreign Secretary David Owen approved the sale of the Lynx helicopters. David Owen acknowledged that:

"Important questions of principle do anyway arise given the scope of size of potential arms sales to a regime whose human rights record is worse than Chile [which was under an arms embargo from the UK at the time], and which could come close to a confrontation with us over the Falklands."[18]

However, the Secretary of State went on to say in a letter to the Ministry of Defence:

"I think we must recognise that it is not possible to achieve complete consistency in our approach to this problem and that to attempt to do so would impose unreasonable constraints upon us. For instance, as you will know, we have already indicated that there is no Foreign Office objection to the sale of the Lynx helicopters … I know it could be argued that these items would be relevant in any threat to the Falkland Islands, but we will never achieve perfect consistency."[19]

Both the Destroyers and Lynx helicopters were used in the invasion of the Falklands. A team of commandos who landed at Mullet Creek – the first part of the invasion – were lowered from the deck of one of the Destroyers. One of the Lynx's (ARA 3-H-42) was the first Argentine aircraft to land on the Falklands after the invasion.

After defeat in the Falklands the military junta was kicked out of power in the 1983 elections. Through the 1980s the economy suffered from the huge foreign debt the government inherited, which led to stagnation and increases in unemployment and poverty. In 1983, western governments, including the UK, restructured when the debt owed on contracts such as the Destroyers, helicopters and missiles should be paid over.

In the 1990s Argentina followed IMF prescribed policies, which led to another debt and economic crisis at the turn of the millennium. Eventually the government defaulted on its debt at the end of 2001. Private creditors accepted 30p in every £1 that was owed on the debt. However, foreign governments such as the UK refused to enter negotiations on the debt because they insisted Argentina should start implementing IMF economic policies again. The Argentinian government in 2014 agreed to start repaying the debt in full, which represents a huge return for the UK and other western governments in comparison to the reduction accepted by the private sector.

Footnotes

16 http://www.britannica.com/EBchecked/topic/165129/Dirty-War

17 UK Export Finance (2013). Sovereign debts: Explanatory note. November 2013.

18 Owen, D. (1979). Letter: Arms Sales to Argentina. Foreign and Commonwealth Office. 26/01/79.

19 Owen, D. (1979). Letter: Arms Sales to Argentina. Foreign and Commonwealth Office. 26/01/79.

Kenya

- Debt owed to UK Export Finance end-2014: £11.43 million
- Debt payments: £11.87 million to be paid between 2015 and 2020

Kenya began defaulting on debts in 1994. When the defaults on the debts guaranteed by ECGD began, they totalled £61 million. In 2000, Kenya reached an agreement with the UK and other Paris Club countries on a new schedule for repayments, but agreed to repay in full. In 2012 the UK government revealed that 68% of the debt to the UK came from a 'power' project. Further questioning in parliament revealed that this was a ...

"hydro electric power project, the design, supply, erection and commissioning of a cable form factory and associated goods and services, and the design and construction of a hydro-electric dam."[20]

The one hydro power project ECGD is known to have supported in Kenya was the infamous Turkwell Dam. This was a hydroelectric dam built primarily by French companies with British contractors. Kiama Kaara from the Kenyan Debt Relief Network explains:

"The contract to build Turkwell was awarded in January 1986. In March 1986 a European Commission official said that the price was 'more than double the amount Kenya's government would have had to pay for the project based on an international competitive tender ... The Kenyan government officials who are involved in the project are fully aware of the disadvantages of the French deal ... but they nevertheless accepted it because of high personal advantages.'

"There is evidence these 'advantages' included payments to President Daniel Arap Moi, then leader of Kenya under an increasingly repressive one-party state regime. Despite this, we understand ECGD's guarantees for the Turkwell Dam were issued in August 1986, well after it was apparent the deal was corrupt. In the mid-1980s, Kenya's debt payments were already between 25–30 per cent of export earnings. More debt was clearly unsustainable, never mind for a corrupt overpriced 'white elephant'."

Furthermore, in November 2012 the UK government revealed that 11 per cent of Kenya's debt to the UK comes from communications equipment. Questions in parliament discovered that this was actually military communications equipment exported to the regime of President Moi between 1987 and 1989.[21] Kiama Kaara says:

"Such a deal was clearly unjust; supporting the military of a heavily indebted one-party state which was by many accounts repressive and included documented cases of torture at the time."

Footnotes

20 http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130108/text/130108w0001.htm

21 http://www.theyworkforyou.com/wrans/?id=2013-01-22b.138229.h

22 Sir Richard Scott (1996) *Report of the Inquiry Into the Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions.*

23 Sir Richard Scott (1996) *Report of the Inquiry Into the Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions.*

24 Leigh, D. and R. Evans (2003). *How £1bn was lost when Thatcher propped up Saddam*. 28/02/2003. http://www.guardian.co.uk/world/2003/feb/28/iraq.politics1?INTCMP=SRCH

Iraq

- Debt owed to UK Export Finance end-2014: £229.50 million
- Debt payments: £249.99 million to be paid between 2015 and 2028

Iraq gained independence from Britain in 1932. The Ba'ath party came to power in 1963 through a military coup. Saddam Hussein was a key player in the coup, became the head of security forces in the new government, and in 1979 became president after forcing President Ahmed Hassan al-Bakr to resign. The Iran-Iraq war began in 1980 over border disputes, and lasted for eight years. Chemical weapons such as mustard gas were used by Iraq against both the Iranians, and Kurds in the north of the country.

Officially, from 1985 20% of loans (£50 million) could be for arms sales.[22] However, some projects that were for military related equipment were not counted within this limit. In 1988, following the end of the Iran-Iraq war, the limit for backing loans for official military sales rose to £100 million.[23] The Scott Inquiry into arms to Iraq revealed that this included:

- £14 million for the Falluja 2 chlorine and phenol plant, secretly built in 1985 by the British subsidiary of German Uhde Ltd.
- Paul Channon, Trade Minister at the time, instructed UK Export Finance to keep these deals secret from the public. Reports suggest there was a strong possibility the plant was used for manufacturing chemical weapons, and was cited by the US in the early 2000s as 'proving' Iraq's capability to produce chemical weapons.
- $42 million for Racal to supply Jaguar V radios to the Iraqi army.[24]

- £10m for the Iraqi army to buy Marconi Command and Control equipment crucial for accurate artillery fire.[25] The project was listed as for civilian purposes to by-pass the military loans limit.[26]
- £18m in 1988 for the Iraqi airforce to purchase equipment from Tripod Engineering Co Ltd.[27]

Throughout this time, there are no official figures on the size of Iraq's debts, and its annual debt payments. The government began defaulting on some debts in 1987, though it is thought payments to the UK and US continued. By 1989 the US and UK were the only two countries Iraq *had not* requested a rescheduling of payments from.

In 1990 Iraq invaded Kuwait whilst it was supposedly under an arms embargo, though the Scott Report found, incredibly, that British arms sales did not necessarily come to an end with the embargo. We presume Iraq began defaulting on their UK backed loans from 1990, with the invasion of Kuwait, and the first Gulf War.

What we now know is that when the default happened, Iraq owed the UK £622 million. The vast majority of this, 69 per cent, was loans for 'construction and equipment', but the UK government has refused to release further information on what these exports actually were because they claim it would *"incur disproportionate cost"*.[28] We presume the exports include the Falluja 2 chlorine and phenol plant, and other military goods hidden in this category as revealed in the Scott Report.

The UK government has said 1 per cent of the debt was for 'defence' equipment, which a parliamentary question has subsequently revealed was…

"Vehicles spare parts, helicopter spares/electrical components, medical materials, medical laboratory equipment, Centaur military vehicles and spares, Sabre 51 beacons, Beethoven exploders, drilling machinery and equipment."[29]

A further parliamentary question has revealed that exports listed under 'vehicle spare parts', rather than 'defence', include spare parts to the Ministry of Defence, and that these exports incredibly took place in 1998 and 1999,[30] when the UK and US were bombing Iraq through Operation Desert Fox, and Iraq was in default on its debt.

After 1990, the debt was not paid, and creditors such as the UK increased the amount claimed to be owed each year by adding on unpaid interest. After the second Gulf War, the US government began to suggest that Iraq's debt should be cancelled in full because the loans to Saddam Hussain's regime were odious. In April 2003, Deputy US Defence Secretary Paul Wolfowitz said to a Congressional Committee that Russia, France and Germany should consider writing off *"some or all of the debt"* facing Iraq's new government. Wolfowitz continued:

"I hope … they will think about the very large debts that come from money that was lent to the dictator to buy weapons and to build palaces and to building instruments of repression,"[31]

without admitting or detailing the US loans to Saddam Hussain's government.

In the end, all the debt was not cancelled. But more was cancelled than in other cases in this report. In 2004, 18 western countries in the Paris Club agreed to cancel 80 per cent of the debt owed to them by Iraq, in stages between 2004 and 2008.

By then, the UK claimed it was owed almost £1.2 billion, almost double the size of the debt when Iraq started defaulting.[32] By 2008, the UK had cancelled £953 million, all of which was counted as 'aid' and contributing towards meeting UK aid targets. However, this left a further £238 million still to be paid.

Payments on the leftover debt are now being made at just over £20 million a year, and are set to continue until 2028.

Footnotes

25 Leigh, D. and R. Evans (2003). How £1bn was lost when Thatcher propped up Saddam. 28/02/2003. http://www.guardian.co.uk/world/2003/feb/28/iraq.politics1?INTCMP=SRCH

26 Sir Richard Scott (1996) *Report of the Inquiry Into the Export of Defence Equipment and Dual-Use Goods to Iraq and Related Prosecutions*.

27 Leigh, D. and R. Evans (2003). *How £1bn was lost when Thatcher propped up Saddam*. 28/02/2003. http://www.guardian.co.uk/world/2003/feb/28/iraq.politics1?INTCMP=SRCH

28 Fallon, M. (2012). Written parliamentary answer to Jim Fitzpatrick MP. HC Deb, 11 December 2012, c233W. http://www.theyworkforyou.com/wrans/?id=2012-12-11a.132241.h&s=ECGD#g132241.r0

29 Fallon, M. (2012). Written parliamentary answer to Adam Holloway MP. HC Deb, 18 December 2012, c730W. http://www.theyworkforyou.com/wrans/?id=2012-12-18c.132653.h#g132653.r0

30 Fallon, M. (2012). Written parliamentary answer to Kevan Jones MP. http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130108/text/130108w0001.htm

31 Elsner, A. (2003). *US Considering 'Odious Debt' Doctrine for Iraq*. Reuters. 29/04/03.

32 This implies the average interest rate on the debt was around 8 per cent.

Iran

- Debt owed to UK Export Finance end-2014: £41.93 million
- Debt payments: No agreement by Iran to pay

When Iraq was at war with Iran, it could have involved both sides using British military equipment against each other. All of Iran's debt to the UK comes from loans to the regime of the Shah to buy weapons.

In 1972 and 1974, UK Export Finance guaranteed loans to Iran to buy Rapier anti-aircraft missiles from British Aerospace. In 1978, loans were given for Iran to buy Chieftain tanks.[33] At the time, the country was ruled by the oppressive and autocratic Shah. In 1951, Iranians had elected Mohammad Mosaddegh as Prime Minister. Mosaddegh nationalised the oil industry, losing British Petroleum their monopoly in the country. In 1953, the UK and US overthrew Mosaddegh in a coup with power concentrated with the Shah and his American and British backers. The Shah's feared Secret Police, trained by the US, led a programme of widespread repression.

In September 1978, the military killed a large number of people protesting in Tehran's Jaleh Square. By December, between 6 and 9 million people were marching in Iran against the Shah's rule. Strikes and demonstrations paralysed the country, the Shah fled into exile, and, formerly exiled opponent of the Shah, Ayatollah Khomeini returned. Iran became an Islamic Republic, after being supported in a referendum.

The new government sought to repudiate the debt they had inherited from the Shah's regime. Payments on the missile and tank loans stopped being paid in 1979, and UK Export Finance bailed-out the lenders. Since then, no money has been paid on the debt. Neither has there been any agreement on how much is officially 'owed' by Iran to the UK. UK Export Finance claim £41.93 million of principal is owed, but this does not include any claimed interest accrued for the last 34 years.

Under UK Export Finance rules, they are not supposed to back loans to a government with which they do not have an agreement to pay the debt. But in 2004/05 they did exactly that, guaranteeing £66 million of loans to the National Iranian Oil Company – the State owned oil company – for equipment for the South Pars 9 and 10 gas project. South Pars is the largest gas field in the world. In 2005/06 these were followed by loans of £112 million, guaranteed by UK Export Finance to the government owned National Petrochemical Company.[34]

By issuing these guarantees, UK Export Finance had effectively 'temporarily' cancelled the Iranian debt. But they choose to 'uncancel' it when it politically suits them by adding Iran's debt back in to what it considers it is owed.

There is no reason the unjust debt from the 1970s arms loans to the Shah should ever be paid. But neither should UK Export Finance be guaranteeing loans to the current Iranian regime.

Footnotes

33 UK Export Finance. (2013). Freedom of Information Responses FOI(13)06 and FOI(13)27. 28/03/13 and 09/08/13.

34 ECGD Annual Reports 2005 and 2006.

35 Ministry of State for Defence. (1980). Letter from Lord Strathcona to Nigel Lawson on Egypt and arms exports. 28/05/1980.

Egypt

- Debt owed to UK Export Finance end-2014: £51.04 million
- Debt payments: £51.47 million to be paid between 2015 and 2024

From 1970 Egypt was led by Anwar Sadat, and after his assassination in 1981, General Mubarak, until the revolution in 2011. On coming to power, Sadat allied Egypt with the United States, and in 1979 reached a peace treaty with Israel, which led to Egypt being expelled from the Arab league.

After UK Export Finance had said it was not possible to find out where Egypt's debt to the UK came from, Jubilee Debt Campaign found information in the National Archives which revealed that by 1979, £40 million of loans (20% of all UK loans to Egypt) were for arms sales to President Sadat, including Swingfire missiles and Lynx helicopters.

Egypt's government foreign-owed debt shot-up rapidly in the late-1970s at the same time as these loans were being given, rising from 16 per cent of GDP in 1974 to 60 per cent of GDP in 1978. The withdrawal of Arab support, and the global economic downturn, caused the economy to worsen even further at the start of the 1980s, and government foreign-owed debt grew to a huge 85 per cent of GDP by 1983.

In 1980, UK defence Minister Lord Strathcona wrote to then Financial Secretary Nigel Lawson to say that although the Egyptian economy was probably not strong enough to handle more loans, loans for further arms sales should be advanced as it was in the *"national interest"* to support BAE.[35] This included planned loans for Hawk aircraft. In the end the Egyptian government went with French Mirage jets, loans for which presumably continue to make up some of Egypt's debt to France.[36]

By the mid-1980s, government foreign debt payments were over 30 per cent of export revenues. Egypt began defaulting on its debts, although even at this stage the UK continued to agree to back more loans, including for a tank factory near Cairo and a military city west of Alexandria.[37] In 1987, the UK and other western governments agreed to reschedule Egypt's debt payments.

UK Export Finance has now revealed that of Egypt's debt to the UK, which all dates from the 1987 debt restructuring, 23 per cent was for 'defence' equipment. Almost 40 per cent was for 'Water and sewage system parts and equipment', which we believe to be a waste water project in Cairo. 25 per cent was for unspecified 'industrial plants, machinery and parts' which could well include the tank factory.

In 1987 the debt to the UK was £442 million. In 1991, as a reward for supporting the US, UK and France during the first Gulf War, Mubarak's Egypt had some of the debt cancelled. Of what was left, repayments have now reduced the debt to £68 million, with £35 million of interest and principal repayments due in 2014 and 2015.[38]

General Mubarak was deposed from power in 2011 after the protests of the Egyptian Revolution. However in 2013 the military once again took power under Abdel Fattah el-Sisi. The debts of the Mubarak regime have continued to be paid, including to the UK government, at a rate of around $3 billion a year. Dina Makram Ebeid from the Popular Campaign to Drop Egypt's Debt says:

"Egypt's debt is Mubarak's debt. It is not the Egyptian people's. Egyptians never had a say in the borrowing that was done in their name, let alone borrowing to buy arms."

Footnotes

36 In February 2015, Egypt announced it is buying 24 Rafale fighter jets from France http://www.ft.com/cms/s/0/412136b6-b2f4-11e4-b0d2-00144feab7de.html#axzz3bnObbscW. It is believed that once again the loans to pay for these planes are, at least in part, guaranteed by the French government.

37 Walker, T. (1986). Egyptian military city order goes to British company. *Financial Times*. 07/10/86.

38 UK Export Finance. (2011). *Export Credits Guarantee Department: Lists of debt owed to ECGD under debt rescheduling agreements*. November 2011.

39 UK Export Finance. (2012). *Sovereign debts: Explanatory note*.

40 UK Export Finance. (2013). Response to Freedom of Information Request. 12/02/13.

Ecuador

- Debt owed to UK Export Finance end-2014: £20.32 million
- Debt payments: £20.93 million to be paid between 2015 and 2021

In November 2012, UK Export Finance revealed that 56 per cent of Ecuador's debt comes from loans to buy British military equipment.[39] A subsequent Freedom of Information request by Jubilee Debt Campaign reveals that the military exports were:

- Hawker Sidley-748 Series 2A aircraft, February 1974
- Jaguar aircraft and spare parts, July 1974
- Equipment for a laboratory, with training, May 1979
- Radar systems, June 1981
- Radio Communications equipment, April 1982[40]

Between 1972 and 1979 Ecuador was run by a military junta, led first by Rodriguez Lara, and following his overthrow in 1976, the commanders of the three armed services. The military, supported by the business community, took power in order to prevent the popular centre-right candidate Asaad Bucaram Elmhalim from winning presidential elections in 1972.

The military and the state benefited from increased oil revenue through the 1970s both due to higher production, and higher international oil prices. The GDP grew by 40 per cent per person between 1972 and 1979. However, the junta also funded themselves through extensive foreign borrowing. Despite the oil boom, the government's external debt doubled from 15 per cent of national income in 1971 to 30 per cent by 1978.[41] This included borrowing from the UK government to buy Jaguar fighter aircraft and Hawker Sidley transport aircraft for the Ecuador Air Force.

In 1979, the country returned to civilian rule with the election of Jaime Roldos Aguilera from Bucaram's CFP party. Roldos had campaigned under the slogan "we will not forgive, we will not forget" about the period of military rule. But the military said it would not tolerate any investigation into human rights during the rule of the junta.

At the start of the 1980s, debt payments continued to rise as interest rates on dollars and other foreign currencies increased. At the same time, the price of oil fell following the second oil price spike. Between 1979 and 1981, the Ecuador government's debt payments averaged 30 per cent of export revenues, a huge amount. In January 1980, Ecuador began defaulting on the loans for the Jaguar fighter aircraft.[42] But incredibly the UK government kept backing new loans for military equipment – radars in June 1981, and radio communications equipment for the army in April 1982.

In May 1981, President Roldos was killed in a plane crash in the south of Ecuador. Some accused the United States of being responsible for the crash. Less than three months later, President Omar Torrijos Herrera of Panama died in a similar way, with evidence of US involvement in the crash. President Roldos was succeeded by his deputy, Osvaldo Hurtado.

In 1982, Ecuador began defaulting on many of the debt payments it owed. As a debt crisis swept Latin America, US and British banks were threatened with bankruptcy if all the loans were not repaid. Instead the IMF and World Bank lent new money to enable the debts to be paid – bailing out the banks – whilst keeping countries trapped in debt. Ecuador took such bank bailout loans from the IMF every year from 1983–1991, then in 1994, and 2000 to 2003, in return for austerity and radical liberalisation of the economy.

These reforms were supposed to enable the debt to be paid off and the economy to grow. But by 2000, the economy was still smaller in per person terms than it had been in 1981. And the government's external debt was still over 50 per cent of national income.[43]

Inequality increased rapidly. In 1987 (the first year with figures available) for every $1 earned by the poorest 10 per cent of the population, $53 were received by the richest 10 per cent. By 1999, the poorest 10 per cent had seen their share of national income almost halve, whilst the richest got more. At the turn of the millennium, for every $1 earned by the poorest 10 per cent of the population, $116 were received by the richest 10 per cent. According to researchers from the World Bank and others, in the 1980s, over 1 million more people were pushed into poverty.[44] The Ecuador National Development Council says poverty levels rose from 47 per cent of the population in 1975 to 57 per cent in 1987 and 69 per cent in 1998.[45]

As well as the rise in interest rates, and fall in oil prices, Ecuador was hit by severe drought and flooding in 1982 and 1983. The economy shrank by over 3 per cent per person in 1982 and more than 5 per cent per person in 1983. Debt payments averaged more than 30 per cent of export revenues throughout the 1980s.

Ecuador defaulted on the British loans for military goods listed above between 1980 and 1987. At the time of the defaults, Ecuador owed the UK government £42 million in total, £24 million of which was for the military goods. Ecuador kept on reaching new agreements on when to pay these debts, most recently in 2003. Ecuador has paid around £50 million to the UK government since 2005, but still has around £20 million left to pay. Most of this debt is due to be paid off by 2018. Jubileo 2000 Red Ecuador say that the debts

"constitute an unequal, unfair and unethical debt. They have made difficult the development opportunities and the enjoyment of fundamental rights. Therefore, it is imperative that the UK Government conduct a comprehensive audit of military and other debts owed by Ecuador."[46]

Footnotes

41 World Bank. World Development Indicators database.
42 UK Export Finance. (2013) Freedom of Information Response FOI (13)05. 12/02/13.
43 World Bank. World Development Indicators database.
44 Psacharopoulos, G., Morley, S., Fiszbein, A. and Wood, W.C. (1995). *Poverty and income inequality in Latin America during the* 1980s. Review of Income and Wealth. http://www.roiw.org/1995/245.pdf
45 http://www.cesr.org/downloads/Ecuador%20Case%20Study.pdf
46 Jubileo 2000 Red Ecuador. (2013) Letter to Jubilee Debt Campaign. 26/04/13.

Zimbabwe

- Debt owed to UK Export Finance end-2014: £222.04 million
- Debt payments: No agreement on when to pay the debt. Current Zimbabwe government policy is to negotiate an agreement to pay.

At independence in 1980, Zimbabwe inherited $700 million of debt from the Rhodesian government which resulted from UN sanction busting loans for the white regime to buy arms during the civil war. This inherited unjust debt was short-term, high interest, imposing a large repayment burden in the early 1980s. At the same time, drought struck between 1982 and 1984. In the absence of significant grant aid to deal with the drought and reconstruction following the civil war, Zimbabwe relied on loans to buy imports. Thus the country's large debt burden was created.

Through the 1980s poverty fell. But by the end of the decade debt repayments equalled 25 per cent of Zimbabwe's exports, and 25 per cent of government revenue. Despite this, the World Bank stated Zimbabwe had avoided a 'damaging build-up of external debt'.

In reality, the only way Zimbabwe could keep paying was to receive new loans to pay old debts. With private banks less willing to lend to the country, they were effectively bailed-out by new loans from international institutions, particularly the World Bank, African Development Bank and IMF. These 'structural adjustment' loans were not for investment in any particular project, but used to repay old debts.

The structural adjustment loans were linked to Zimbabwe bringing in policies such as cuts in government spending, trade liberalisation, deregulation of prices, devaluation of the currency rate and removal of labour laws. Such policies certainly had support within the government, and were presented as homegrown, but they were also a requirement of the lending needed to pay old debts. In 1991 and 1992 Zimbabwe was also hit by another major drought. Poverty, inequality and debt all rapidly increased.

Whilst Zimbabwe was in a debt crisis, ECGD guaranteed loans to enable the government to buy Hawk fighter aircraft. ECGD backed £35 million in loans to Zimbabwe from 1989 to 1992 to buy five Hawk aircraft manufactured by BAE Systems. Documents released under the Freedom of Information Act reveal that Zimbabwe spent £49 million repaying the Hawk debt between 1991 and 2000.[47]

The Hawk aircraft were deployed by Mugabe's government in the 1998–2002 Democratic Republic of Congo conflict. At the time, the British government approved the purchase of spare parts worth £5–10 million for the jets amid growing concerns that the aircraft were being used to sustain the conflict in the DRC.[48]

Whilst the Hawk loans were repaid, meaning that they are not part of Zimbabwe's debt to the UK, Zimbabwe was only able to pay its debts in the 1990s because it received $1 billion of bailout loans from the IMF, World Bank and the African Development Bank. These bailout loans continue to make-up much of Zimbabwe's debt to this day. Effectively, the debt owed to the UK for the Hawks was simply transferred to the IMF, World Bank and African Development Bank.

Structural adjustment was meant to increase economic growth, make the balance of payments more positive and reduce unemployment. In reality, economic growth fell from averaging 4.5 per cent in the 1980s to 2.9 per cent between 1991 and 1997. Imports grew faster than exports, changing an annual trade surplus between 1985 and 1990 to a trade deficit. Unemployment increased from around 22–30 per cent to 35–50 per cent. Furthermore, the proportion of people living below the poverty line increased from 40 per cent in 1990 to 75 per cent by 1999.[49]

A 2004 evaluation by the World Bank found that…

"In the 1990s, efforts to accelerate growth through better fiscal management and market liberalization largely failed. Social progress slowed, per capita incomes declined and poverty increased."

We estimate US$750 million of Zimbabwe's debt comes directly from structural adjustment loans by the World Bank, African Development Bank and IMF.

Foreign governments continued to keep giving loans so that Zimbabwe would still buy exports from their companies. ECGD lent money for Land Rovers for the Zimbabwean police in the late 1990s which were subsequently used by the Zimbabwean government as part of their land clearances programme. These loans for Land Rovers make-up 11% of Zimbabwe's debt to ECGD. ECGD has revealed it made no social impact assessment of how the Land Rovers would be used.

Other projects funded by ECGD include 'Construction and Equipment' and 'Oil pipelines'.

Footnotes

47 ECGD. (2012). Response to Freedom of Information request from Jubilee Debt Campaign. FOI 12(18). 21/03/12.

48 Africana Bulletin. (2005). Zimbabwe's Military Expenditures 1980–2003. No.51, pp154–155.

49 Jones, T. (2011). *Uncovering Zimbabwe's debt: The case for a democratic solution to the unjust debt burden.* Jubilee Debt Campaign. November 2011.

Other countries

Antigua and Barbuda

- Debt owed to UK Export Finance end-2014: £1.32 million
- Debt payments: £1.45 million to be paid between 2015 and 2023

Antigua and Barbuda entered a huge recession following the global financial crisis which began in 2008, due to a large drop in revenue from tourism, the island nations' main 'export'. The economy shrank by 17 per cent across 2009 and 2010.

Faced with this collapse in revenues, Antigua defaulted on debt payments. UK Export Finance had guaranteed loans for generators, which had £6 million of payments outstanding at the time of the default. Unable to pay, the Paris Club, including the UK, reached an agreement for the debt to be rescheduled and paid over a new timescale. They did not cancel any of the debt, despite the dramatic economic impacts on Antigua caused by the Western banking crisis.

Bosnia and Herzegovina

- Debt owed to UK Export Finance end-2014: £1.11 million
- Debt payments: £1.16 million to be paid between 2015 and 2021

Bosnia owes £1.11 million on loans for construction and financial services. The debt is likely to date from loans to the Republic of Yugoslavia, which were defaulted on during the civil war and reallocated to Bosnia afterwards.

Burma

- Debt owed to UK Export Finance end-2014: £26.80 million
- Debt payments: £29.18 million to be paid between 2015 and 2023

The ECGD guaranteed loans to Burmese companies to buy British exports in the 1970s and 1980s, primarily gas turbine generators and textile equipment. Burma was run by a one-party government which violently repressed any sign of opposition.

In 1997, Burma defaulted on its debts; the total claimed at the time by ECGD was £23 million. In early 2013 Burma reached an agreement with the UK and other Paris Club countries to have 50% of the debt cancelled, and repay the remainder over coming years. However, even after cancellation, interest payments on the arrears mean the debt which is owed today is still higher than that in 1997; £26.8 million.

Cuba

- Debt owed to UK Export Finance end-2014: £91.54 million
- Debt payments: No agreement on when to pay

It is thought Cuba's debt dates from before the revolution in 1959 which overthrew the US-backed authoritarian government of President Batista. UK Export Finance has previously claimed the debt totalled over £160 million, based on interest charged on the arrears, though this amount has been reduced in the most recent documents. The original loans were primarily for 'banks', 'boats and related equipment', 'vessels' and 'industrial plants, machinery and parts'.

Dominica

- Debt owed to UK Export Finance end-2014: £6.69 million
- Debt payments: £7.72 million to be paid between 2015 and 2024

The Caribbean Island of Dominica defaulted on its debt in 2003, when the debt totalled £6.5 million. The debt comes from 'Construction and Equipment'.

Grenada

- Debt owed to UK Export Finance end-2014: £1.80 million
- Debt payments: Grenada defaulted in 2013 – no current agreement on when to pay

The Caribbean Island of Grenada defaulted on its debt following the devastation caused by hurricane Ivan in 2004, which destroyed the equivalent of 150% of the island nation's GDP, including decimating the nutmeg industry, one of the country's main exports. ECGD had guaranteed £1.5 million of loans for Television infrastructure, 'materials' and an airport project.

The UK and other Paris Club countries agreed in 2006 to create a new schedule for the debt to be paid over, but did not reduce any of the debt. In 2013 Grenada defaulted again on bilateral and private debts, as government income fell rapidly following the loss of tourism revenues from the global financial crisis.

The UK now claims Grenada owes £1.8 million, despite the country making some payments between 2006 and 2013. The UK government has refused to respond to calls from campaigners and the Grenadan government to cancel the debt.

North Korea

- Debt owed to UK Export Finance end-2014: £5.86 million
- Debt payments: No agreement on when to pay

ECGD claims it is owed £5.86 million by North Korea. The debt comes from a 1972 project for the supply of equipment and services for a petrochemical complex to the Korea Equipment Import Corporation. North Korea has been a repressive dictatorship since the Korean war in the early 1950s; at the time of the contract it was under the leadership of Kim Il-sung.

Pakistan

- Debt owed to UK Export Finance end-2014: £5.04 million
- Debt payments: £5.42 million to be paid between 2015 and 2024

Pakistan defaulted on its debt in 1998, including £11 million of loans guaranteed by ECGD, which had originally been for an airport project.

Serbia

- Debt owed to UK Export Finance end-2014: £159.11 million
- Debt payments: £167.67 million to be paid between 2015 and 2024

As with Bosnia, Serbia's debts were inherited from Yugoslavia, which defaulted on payments in 1992 during the civil war. An agreement was reached in 2001 with the UK and the Paris Club over which debts Serbia would take on and when they would be repaid. The original loans were for unspecified 'Services and Equipment'.

Seychelles

- Debt owed to UK Export Finance end-2014: £1.11 million
- Debt payments: £1.19 million to be paid between 2015 and 2027

The loans to the Seychelles were originally for 'construction and equipment'.

Somalia

- Debt owed to UK Export Finance end-2014: £52.15 million
- Debt payments: No agreement to pay. UK government says it will cancel the debt if Somalia completes the Heavily Indebted Poor Countries Initiative. This may be possible in the next five years.

Somalia defaulted on its debts in 1991 after the collapse of the Siad Barre government. In the five years prior to the start of the civil war, the government spent an average of 12 per cent of export revenues on foreign debt payments. Somalia owes UK Export Finance £52 million, £35 million of which is interest. The principal comes mainly from loans for 'Tobacco Industry Products'.

Somalia effectively had no government for 12 years. As a new government is gradually being formed, to claim that this is in any way responsible for the debts of a previous regime seems particularly bizarre, never mind the interest charged since the default.

Sudan

- Debt owed to UK Export Finance end-2014: £726.03 million
- Debt payments: No agreement to pay

Sudan's debt to the UK originated in the 1970s and early 1980s when the dictator Gaarfar Nimeiry was supported by Western countries during the Cold War. Sudan defaulted on its debt in 1984 when it was £173 million.[50] Since then the UK has charged 10–12 per cent interest every year on the debt, causing it to increase by £583 million.[51] It is currently increasing by around £20 million every year. The original loans were primarily for unspecified vehicles and parts; it is not known whether these were for military or civilian use.

UK government says will cancel the debt if Sudan completes the Heavily Indebted Poor Countries Initiative. However, Sudan has been seeking entry to this initiative since 2011 and has not been allowed. Western governments, especially the US and UK, argue the Sudanese government has not shown enough signs of 'political reform', though have not specified what they mean by this.

Vietnam

- Debt owed to UK Export Finance end-2014: £3.64 million
- Debt payments: £3.71 million to be paid between 2015 and 2017

Vietnam's debt, which is now £3.6 million, to ECGD comes from loans for 'Capital goods and services'

Footnotes

50 http://www.theyworkforyou.com/wrans/?id=2011-01-17d.33213.h&s=date%3A20110117+column%3A619+section%3Awrans#g33213.r0

51 ECGD. (2011). Response to Freedom of Information Request. ECGD. 07/01/11.