

Financing for Development Issue #5

DEBT

By Gail Lerner, Rebecca Desiree Lozada and Viola Torres

There is a strong consensus in the international community that the debt burden is a serious barrier to the creation of any meaningful development strategy. The Secretary General's report of earlier this year rightly identifies debt as a significant obstacle to development in low-income, middle-income and transition economy countries. It recognizes that debt financing ought to be an integral part of a country's development effort and not a hindrance.

The foreign debt is growing exponentially. Debt relief continues to be an exercise of power and control through the conditionalities imposed by the International Financial Institutions (IFIs). Structural Adjustment Programmes (SAPs) impose unacceptable conditions on debtor nations and drain them of precious resources. Present debt-management proposals such as those devised by creditors—the Heavily Indebted Poor Countries (HIPC) Initiative, to include the Enhanced HIPC—offer too little, too late, to too few countries. Because these are designed by creditors, their purpose is debt collection, not debt relief. Both lenders and borrowers must take responsibility for the debt crisis. It is unjust that creditors dominate the debt relief process. Unless present debt-management plans are transformed into effective, equitable, development-oriented and durable debt release opportunities, the devastating cycle of debt accumulation will repeat itself, condemning millions more people to suffering.

Debtor governments are obliged to prioritize debt repayments over spending on health, education, sanitation, clean water and other social needs. This undermines accountability by debtor governments to the people, which in turn erodes local democratic institutions. Debt and loan negotiations are always conducted in secret between elites in the North and elites in the South, fostering corruption.

Finally, if the debt problem is to be resolved in a way that contributes in an integral way to sustainable community, attention must be paid to how concurrent channels of development financing contribute towards the creation and expansion of external debt. For example, attention needs to be given to how existing trade and investment agreements might inhibit rather than enhance revenue-generating opportunities for developing countries. Vigilance needs to be maintained so that development efforts are not financed through modalities, instruments or mechanisms that create additional burdensome debt.

International fora of civil society convened by the international Jubilee campaigns call for the cancellation of all illegitimate debts of all Southern countries. The prevailing opinion is that there are several categories of illegitimate debt, which can be identified as follows:

1. Debts that are illegitimate to repay, that is, they cannot be serviced without causing harm to people and communities.
2. Debts incurred by illegitimate debtors and creditors acting illegitimately which includes both “odious debt” (that is any debt incurred not for the needs or interests of the state but to strengthen a despotic regime that represses its own population).

3. Debts incurred for illegitimate uses, such as debts for projects which were never built or did not benefit the people as they were intended; debts contracted for fraudulent purposes;
4. Debts incurred with illegitimate terms, included debts incurred at usurious interest rates; debts that became unpayable as a result of external factors (unilateral increase in interest rates) over which debtors have no control.

Caught as they are at the divide between the productive and reproductive spheres of life, women have borne the full impact of debt dependence, adherence to SAPs and underdevelopment. In their multitude roles of worker, caregiver, home manager, wife and mother, women's time and energies are stretched to breaking point as they strive to enable the family to survive economic crises.

Instead of perpetuating this set-up, the Financing for Development process must work for systemic, structural and policy changes and programmes that will free countries from the debt trap, prevent the repetition of these problems and promote political and economic democracy and equity, gender equality, popular empowerment and sustainable communities.

From this framework and towards this end, we recommend that the international community ensure the:

- Immediate cancellation of 100% of the debts of low-income countries, immediate debt relief for severely indebted middle income countries, and cancellation of the illegitimate debts of **all** Southern countries
- Active participation of civil society in decision-making processes that determine the allocation of funds from new loans and debt relief
- Elimination of any conditionalities attached to new loans and debt relief that perpetuate indebtedness, as articulated in the Poverty Reduction Strategy Papers (PRSPs) and the enhanced HIPC initiatives, starting with heavily indebted poor countries in Africa
- Introduction of a new, independent and transparent arbitration process for negotiating and agreeing upon international debt cancellation which ensures that losses and gains are equally shared along with the introduction of ethical lending and borrowing policies to prevent future recurrence of the debt crisis

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