



Report Political Café 'Defuse the Debt Crisis'

16 december 2012, Dudok (the Hague)

On December 16th Jubilee Netherlands organized a Political Café in collaboration with Both ENDS and Oxfam Novib. The purpose of the meeting was to take stock of the impacts of debt relief initiatives for developing countries and draw eventual lessons for the current debt crisis in the Eurozone and other industrialised countries.

The Political Café looked back on more than 10 years of Jubilee Campaigns. What has been achieved so far and what steps should be taken to resolve the international debt crisis in a sustainable way? The seminar started with three short presentations that looked at this subject from different angles. Jürgen Kaiser – coordinator of erlassjahr.de / Jubilee Germany - gave an overview of the historical background of debt, debt relief and how the Jubilee movement had impacted on it. Geske Dijkstra of the Erasmus University Rotterdam compared the findings of various studies about the results of debt relief in different parts of the world, questioning its effectiveness. Kristina Rehbein - also from Jubilee Germany - presented the results of a recent joint study of Jubilee Netherlands and her organization on the effects and impacts of debt cancellation in Ghana and Mozambique.

In the debate that followed, the panel members and the audience were invited to give their opinion on various statements which were introduced by moderator Koos de Bruijn from Jubilee the Netherlands.

Summary of presentations

Jürgen Kaiser (coordinator of erlassjahr.de/Jubilee Germany):

Jürgen Kaiser started with an historic overview of campaigns for debt relief, beginning with the call for the total cancellation of the debt of the poorest countries by the World Council of Churches and other religious leaders ahead of the Annual Meetings of the World Bank /IMF in 1988 in West-Berlin. But as bishops and NGO's do not have the expertise to make informed decisions in macro-economic matters, the G8 and with them the World Bank and the IMF decided not to obey the call, but rather to finance the current debt service to bilateral creditors with new loans from multilateral sources. The Paris Club - the informal club of official creditors looking for coordinated ways of resolving debt payment problems – thus started its mission creep by promoting various partial multilateral debt reduction frameworks.

Kaiser explained that every Paris Club round was presented as "the final solution of debt crises in developing countries". This happened in 1988 with the Toronto Terms, in 1991 with the Trinidad Terms, in 1994 with the Naples Terms, in 1998



with the Lyon Terms and in 1999 with the Cologne terms.

In 2005 the G8 decided to finally do more or less what they had been told by the Bishops 17 years before: write off all claims on these poorest countries. This was a huge progress for everybody - despite some unfavourable rules and regulations like policy conditionalities for obtaining debt relief and the fact that not all creditors were included.

But it was too little, too late. As a result of the delay, a whole generation in the poorest countries lost the opportunity to live their life in dignity. The creditors on the other hand, including governments, instead of cancelling the debt in the 80's, had often refinanced those debts themselves. When finally it became clear that the debt had to be cancelled after all, those debts had become much larger than they would have been in the first place. These costs were and still are generally reported as public ODA expenses, at the detriment of other purposes really benefiting the poor.

According to Kaiser we need a new deal on sovereign debt. We see the same policies of financing rather than solving a sovereign debt crisis being applied within the Eurozone of today. Debtor states should be protected from being completely powerless and dependent on their creditors. Decisions about the sustainability of debts and the way eventual cancellation is implemented should be made by both debtors and creditors through an independent mechanism like an international Debt Court.

Geske Dijkstra (Associate Professor at Erasmus University Rotterdam):

Does debt relief work? In order to answer that question it is important to first know: does it work for what? For example, since debt relief is paid through the ODA-budget, it is very important to know if it has a positive influence on development or not. Also, there are many ways in which debt relief can take place. Is (part of the) actual debt stock cancelled? Or is a debtor country (temporarily) relieved from paying its debt service? In case of the latter the debt stock remains. This generally has very limited impact because the service paid often only consists of interest. Moreover, many countries currently don't pay their debt service at all, simply because they can't. In those cases debt service cancellation does not make any difference on liquidity and might even have a negative impact on development because of additional conditionalities imposed by the creditor.

Dijkstra compared various studies on different types of debt cancellation and their results in regions all over the world. She found only limited results, if any. In her opinion however, three key lessons emerge from past debt relief. First of all loans should not be granted too easily: the so-called 'moral hazard' in this case consists of the fact that poor countries might become very vulnerable if they borrow more than they could ever repay. Secondly, official debt relief should be given much sooner than was the case in the 1980s and '90s, otherwise it is too late. And



third, there should be no additional conditionalities imposed on countries: these often only have further negative impacts on a debtor country.

To reduce the chance of history repeating itself a number of actions are proposed:

1. Install capital and banking regulations
2. Install a sovereign debt restructuring mechanism, or a debt court
3. Change the governance of the IMF allowing for a stronger representation and ownership of developing countries.

Kristina Rehbein (erlassjahr.de):

Rehbein presented the main findings of the research conducted by erlassjahr.de and Jubilee Netherlands. The main conclusion of the research is debt relief had positive effects on poverty reduction and economic growth in Ghana and Mozambique. But debt relief didn't guarantee sustainable economic development. It doesn't prevent a country from getting in to debt problems again. Actually, there's a clear risk of history repeating itself.

Therefore the paper makes a couple of policy recommendations:

1. Promote domestic resource mobilisation
2. Install a debt court
3. Promote responsible borrowing and lending
4. End the "ODA-bility" of debt cancellation

Debate

For the debate which took place after the break, the panel was extended to five persons: in addition to Jurgen Kaiser and Geske Dijkstra, **Sjoera Dijkers** (MP for Social Democrats), **René Grotenhuis** (director of Cordaid) and **Øygunn Brynildsen** (Eurodad) joined the discussion.





Brynildsen presented some findings in a recent Eurodad report on Export Credit Agencies and debt. Eurodad found that 85% of developing country debt cancelled by European governments and accounted for by aid budgets in 2005-2009 was actually debt created from export credits, which are usually driven by commercial, not development objectives.

In his introduction Grotenhuis shared that Cordaid, and its European counterpart CIDSE, mainly work on illicit financial flows in relation to conflict areas. Examples of their work are in the Publish What You Pay Coalition and in the Extractives Industries Transparency Initiative. Recently Cordaid started investigating the possibilities of installing an International Financial Criminal Court of Justice in The Hague to hold corrupt dictators to account.

Dijkers explained how she was a member of the Jubilee Coalition, before she became a MP for the labour party (PvdA). She was on a Jubilee boat-trip over the river Rhine to Cologne, to bring tens of thousands of signatures for debt cancellation to the G8 meeting of 1999. With regard to the current debate, Dijkers argued the focus should not so much be on debt relief, but more on the monitoring of new lending.

All panel members agreed to the first proposed statement: **'debt relief in itself is no structural solution'**. Focus should be on how to prevent countries from getting into this position. Furthermore effectiveness also depends on the kind of debt relief that is applied: Is it a debt stock relief or a debt service relief? The latter tends to be quite ineffective, and debt stock relief will only have sufficient results if the percentage of debt cancelled is large enough to make the debt sustainable afterwards. Sjoera Dijkers added that it makes no sense to have other rounds of debt relief unless governance concerns in many developing countries are addressed. To contribute to that we should take measures at the lending side.

Oygunn Brynildsen stated that lenders should be held responsible for the consequences of the loans they provide. She, like most of the other panel members, agreed that **'a debt court would lead to responsible lending and borrowing'**. An independent debt court would make it easier for debtors to raise their voice and settle disputes in a fair and just way.

Jürgen Kaiser explained the main function of a debt court would be to deal with debt unsustainability. Such a court should not only look at financial matters, but also take dimensions like corruption, social, environmental and human rights concerns into account. Geske Dijkstra considered a debt court mainly to be useful to declare countries bankrupt. René Grotenhuis explained Cordaid is working on an International Financial Court of Justice to hold corrupt dictators to account. According to Grotenhuis a Debt Court should be primarily a criminal court. Sjoera Dijkers expressed her doubts because in her opinion debt issues are matters between governments and financial institutions. Problems should be solved on that level. However a consensus emerged that a debt court could help



to solve disputes between creditor and debtor states in a more just, fair and objective way.

All panel members and the audience endorsed the statement that 'the **'ODA-bility' of debt cancellation should be ended**'. It was considered absurd that the cancellation of debt that mostly originates from the public support of commercial activities is paid from the ODA budget, thus significantly affecting the remaining budget for other regular ODA-activities. After apologizing for the fact that her party (the PvdA) was co-responsible for implementing this practice in the Netherlands, Sjoera Dijkers promised that if the PvdA would become a governing party again, she would make sure this is ended.

The statement ***It is unsatisfactory that the mandatory haircut for private creditors of Greek debt, is withdrawn*** was warmly agreed by the participants.

The audience contributed actively to the debate. Both by posing interesting (and critical) questions to the panelists and by proposing solutions for the issues that arose from the discussions.

The main conclusions of the debate are;

- 1) There's a lot to learn from debt relief experiences in the past. This knowledge should be applied and used in solving the current European debt crisis.
- 2) Debt relief will only have sufficient impact if firm measures are taken in an early stage. In the past it was mostly too little, too late.
- 3) An independent, international debt court would be very useful in solving disputes between debtor and creditor countries in a fair and sustainable way. Too such a court should take the criminal facet of corruption (and with that corrupt leaders and financiers) into account.
- 4) Debt relief should NOT be paid for by the ODA budget. Debtor countries should have a bigger say in how the debt relief is implemented. Creditors should not impose conditionalities.

The Political Café ended with an informal drink.

