

STUDY Session 4

Avoiding Illegitimate Debt and Transforming the International and National Financial Architecture: Towards Principled / Responsible / Alternative Financing

Overview Paper and Discussion Guide

Starting the Debate: Towards Rules for Responsible Lending or A Focus on Alternative Financing?

In raising the issue of illegitimate debt, debt campaigns have encountered the challenge not only of defining what is illegitimate debt but also defining what are legitimate debts or legitimate loans.

This has generated some debate as to whether we should be talking about what would constitute legitimate debt (hence “Responsible Lending and Borrowing” or “Responsible Financing”) or we should instead talk about “Alternative Financing” that would render borrowing unnecessary. Others see this as a non-debate, that both discourses are crucial and not necessarily conflicting.

The campaign on illegitimate debt should address not only outstanding illegitimate debt, but also the creation of new illegitimate debt. This is a foundational point that should be discussed in this session.

Responsible Lending and Borrowing: An Increasingly Critical Issue on Civil Society’s Agenda

A number of countries, especially in Africa, have had a big portion of their debts cancelled. A big challenge is formulating a platform or set of demands and alternatives that address the immediate situation that their governments continue to borrow. There is a strong emerging body of work coming from civil society, especially in but not limited to post-HIPC countries, urging greater responsibility in borrowing. Many of the initiatives are focused on encouraging increased involvement of parliamentarians in the loan contraction process. On the lender side of the equation, Eurodad has proposed a new Charter for Responsible Lending which urges strong constraints on lenders to assure lending does not undermine human rights nor lead to the re-accumulation of illegitimate debts.

Debt Audits are also envisioned as processes that will not just look at the specific debts and come up with recommendations what to do with the debts (i.e. repudiation) but as processes that will also examine the structures, procedures, policies that have led to accumulation of illegitimate debt and/or have rendered the debt illegitimate. Thus, debt audits are also expected to come up with recommendations for structural and policy changes that will not only look at alternative sources of financing but also changes in how lending, borrowing and debt servicing is done - which can be broadly categorized as or overlap with the discourse on principled/responsible financing

Responsible Financing: On the Official Agenda

There is a growing official discourse on the issue of “responsible lending/financing” in a whole range of intergovernmental fora - from the UN Financing For Development Process to the World Bank to the OECD to the G-8 and the G-20. These conversations have intensified since 2005 and much of the debate centers on the much more limited notion of how developing countries can avoid the re-accumulation of unsustainable and irresponsible debt all over again. This debate has also been fuelled by the increased lending activities of “new lenders” such as China in Africa.

Debt movements have a very different perspective of the issue from the policymakers. For instance, governments and international financial institutions want to approach “responsible financing” only in terms of future practices and of the *quantity* of new loans. Many debt groups would argue that the “responsible financing” agenda goes hand-in-hand with a close examination of the debts of the past (i.e. you have to learn the lessons of the past to move forwards).

Moreover, debt campaigners argue, responsible lending is also about the *quality* of new loans being extended and taken-on.

Governments, especially lender governments, and international financial institutions should not be allowed to define, dominate and own this discourse. There are huge opportunities to raise these issues in international processes. In order to engage effectively, debt campaigns need to come together to share views, explore and define common grounds and strategize how we want to collectively approach the issues of principled, responsible, and alternative financing.

Building An Alternative: The Bank of the South and More

The Bank of the South initiative is another arena and source of challenge for debt campaigns and movements to address the question of more “principled” or “responsible” ways, terms and purposes of lending and borrowing. There are frameworks and ideas that have emerged from movements and civil society organizations from Latin America and other places in the context of engaging governments involved in the establishment of the South Bank.