

# Jubilee Research Update

Volume 5 Issue 1: February 2007



## Our last edition!

We are sad to say that this is the last edition of the Jubilee Newsletter. As our level of work increases, we have taken a strategic decision to devote more of the time of our small staff directly to fighting poverty

and injustice. We regret ending this service, and hope you have enjoyed reading the newsletter as much as we have enjoyed writing it. We also hope that you will continue to support us, and follow our activities, briefings and reports on our website at [www.jubileeresearch.org](http://www.jubileeresearch.org). We will continue to prepare biannual reports to our funders and trustees and you are welcome to sign up to these, preferably electronically, by writing to [stephen.mandel@neweconomics.org](mailto:stephen.mandel@neweconomics.org) or to the address at the foot of this page. For immediate updates on debt matters readers should refer to the Jubilee Debt Campaign's website <http://www.jubileedebtcampaign.org.uk/>.

## HIPC news

In November the World Bank and the IMF conferred on Haiti Decision Point status in the HIPC process as country number 30, while in December Sierra Leone reached Completion Point, the twenty-first country to do so.

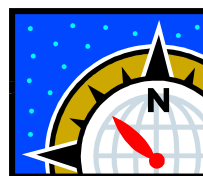


In Haiti, the poorest country in the Americas, 54 per cent of the population live on less than \$1 a day, and life expectancy is 52. The net present value of Haiti's debt stood at \$932.9 million at the end of 2005, or \$110 for every man, woman and child. With a debt-to-export ratio of 2.95 Haiti easily qualifies for HIPC under the World Bank's own criteria, which set a maximum of 1.5 for this measure. Needless to say, under the debt sustainability criteria set out in our paper *Debt relief as if people mattered*, **Haiti can sustain no debt whatsoever.**

Although the situation is desperate, and Haiti is attempting to recover from the deeply destabilising effects of years of brutal and corrupt dictatorship under the Duvaliers and the subsequent turmoil of recent years, it only qualifies for interim debt relief at this point. It will have to wait until it has implemented an IMF programme for at least a year and prepared a Poverty Reduction Strategy Paper before it can "graduate" to Completion Point, when most debt relief is effected and the debt reduction made

permanent. This is also when the MDRI (otherwise known as the Gleneagles G8 deal) relief comes into effect. This is not expected before September 2008, and could be considerably longer if Haiti has problems implementing any of the conditions that accompany an IMF programme (usually including privatisation of state enterprises and strict ceilings on budget deficits that hit social services). At best, HIPC will reduce Haiti's debts by \$140 million and MDRI by a further \$243 million. This would still leave the country with debts of \$550 million. It is, however, likely that the Inter-American Development Bank (IDB) will have finalised its equivalent to MDRI by then, which might see another \$330 million cancelled. In the meantime, every month of delay will mean extra debt servicing paid which can never be recovered.

Although **Sierra Leone** reached Decision Point in March 2002, it was only in December 2006, 57 months later, that it jumped through all the IMF's hoops and reached Completion Point. Having ended 2005 with a debt stock of \$1,198 million (in NPV terms) it should have a debt stock of "only" \$110 million after both HIPC and MDRI, which will reduce its debt servicing costs significantly. The basic situation in Sierra Leone, which only emerged from brutal civil war five years ago, is even worse than in Haiti. Life expectancy is only 41 years, and the country has an under five mortality rate of 203 per thousand. There has, at least, been a big jump in primary school attendance in recent years (up more than 35% in 2005), and the under five mortality was 286 in 2004, so some things are improving. Whether grant aid will be forthcoming in sufficient quantities to prevent a new slide into unsustainable debt remains to be seen. Our own analysis shows the country cannot afford to service any debt.



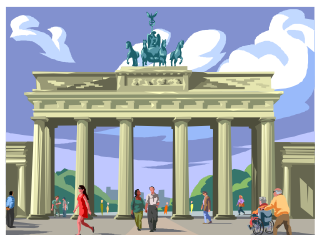
## Out and about

**Steve Mandel** had an article published in *The Banker* in November, 'Odious loans must be dealt with fairly'. (An edited

version appears on our website under the title *Motes and beams* (<http://www.jubileeresearch.org/news/Banker%20article%20on%20odious%20lending.pdf>) The article drew on the findings of *Odious lending*, and noted that the World Bank and its major shareholders have expressed concern that new lenders (notably China) are rushing in to lend to resource-rich but ethically-poor regimes like Sudan

and Myanmar, thus reducing the effect of any sanction from the North. The irony of this, which ignores the World Bank's own behaviour (most notably in the past with respect to any number of 'pro-Western' dictators, but also in the present with regard to Pakistan, Uzbekistan etc.) seems lost on these commentators.

**Steve Mandel** was invited to give a talk on his work to the Reading Quaker meeting in November. He reported on both the Human Rights approach to debt relief and the concept of odious lending. A lively discussion ensued and a generous donation towards our work was received. The Quaker Meeting is likely to become a "corporate" member of nef.



### Berlin briefing

This year's EURODAD conference and Annual General Meeting were held in Berlin on the campus of the Evangelisches

Johannesstift, set in a wooded area north-west of Berlin, on the theme: *From illegitimacy to responsibility: transforming development finance*. Our hosts were the German Jubilee movement, Erlassjahr. The focus on odious lending and conditionality was just up **Steve Mandel's** street. One hundred and ten people attended the conference from 38 countries, including guests from 23 countries in the global South.

There was general consensus from the conference that the time has come for a big push on the concept of illegitimate debt, following the success of campaigners in Norway in getting their government to acknowledge co-responsibility for the outstanding debts related to an ill-fated sale of ships to a number of countries in a bid to support the Norwegian ship-building industry, as reported in our October newsletter. Further support for this view stems from the use of the concept by the USA to plead for cancellation of Iraq's debt inherited from Saddam Hussein (for details of the remarkably explicit language used see our report *Debt relief as if morals mattered* (<http://www.jubileeresearch.org/news/odiouslendingfinal.pdf>). Paul Wolfowitz is also apparently a convert (though he doesn't seem to have realized what this should mean for his own institution) since he has said, à propos Liberia, "It's really unfortunate when you get a government with this kind of commitment and energy, ready to do important things and having absolutely zero responsibility for the debts, that they have to spend so much of their time and energy dealing with the creditors – who have a major responsibility for having made the loans in the first place."

There was a lively discussion at the conference, led by two legal experts with differing views on the

matter, about the possibility of obtaining legal recognition of the term "odious debt" in international law. Ashfaq Khalfan from the Centre for International Sustainable Development Law (of Canada) and one of the authors of a major review of the case for the odious debt doctrine, argued that there were good grounds for putting a test case to the International Criminal Court, national courts or a special tribunal, while Sabine Michalowski of the Human Rights Centre in the University of Essex presented a more sceptical view, concluding that targeting debts which broke international conventions would be more likely to succeed. Both routes have their advantages and drawbacks.

It was generally agreed that creditor responsibility was the key issue and that this covered a wide range of situations, including odious lending (as defined in our paper *Debt relief as if morals mattered*), bad policy advice and poorly designed projects. It was also concluded that whatever the state of the law and the precise definition of the various terms, political will was the pre-requisite for a just and lasting solution.

There was a valuable debate about the extent to which the needs for transparency and accountability should influence the terms of aid and debt relief. All present held that no economic policy conditions should be attached to either, but there were differences of opinion on whether conditionality can be used to assist greater transparency and accountability. Some participants were worried that donor conditionality weakens the accountability that really matters, namely the accountability of governments to their citizens. It was agreed that Northern institutions should focus on facilitating the latter, on dealing with the element of complicity inherent in corruption (for every bribe-taker there is a bribe-maker) and the role of Northern-controlled tax havens, both in facilitating the hiding of ill-gotten gains by Southern elites and the loss of tax revenues from large-scale transfer pricing, see below. Asking that both sides of the aid relationship subscribe to international norms of transparency was also supported.

A presentation from the Tax Justice Network (TJN), which is hosted by nef, outlined how the problem of capital flight dwarfs aid, debt relief, inward investment and even remittances. The subject is complex as the term covers not only the flight of assets owned by Southern elites, both legitimate and illegitimate, but also the transfer of profits using transfer pricing by multinational corporations. This is very large but very difficult to quantify, as the financial system is so opaque. One example of its importance is that the Cayman Islands is officially the second-largest trading partner with Brazil, and estimates collected by TJN suggest it caused a loss to South Africa of 9 per cent of its GDP every year between 1994 and 2003.

Transfer pricing allows corporations to shift their profit to wherever they will be taxed least, often to tax havens. In this way taxpayers in the South and the North lose out, although the impact is proportionately much greater in the South. Yet most, if not all, tax havens are dependent on a Northern country and could not function without the services of Northern banks, accountants and law firms. New legislation designed to prevent terrorist financing could be used to pick up a lot more information but so far it has not been used to attack corruption.

The AGM itself covered the planning of the work of the EURODAD team for the next year and the accession of three new members to the network. They include the Development Research Centre of Bulgaria, as EURODAD continues to expand to reflect the growing European community.

## Leeds takes the lead...

In June, **Susanna Mitchell** gave a talk and workshop to TIDAL (Trade Justice and Debt Action Leeds) in Leeds. The organisers were inspired to follow this up with series of sessions on new economics. After a great deal of hard work and research, Lorna Arblaster and David Adshead of TIDAL, and Claire Bastin, a development economist who attended Susanna's talk, have now set up a new debating group called **Economic Justice for All**, which held its first debate on 20 January.

The group encourages debate on economics and politics, examining how they relate to protecting the environment, corporate power, social welfare and poverty in the UK and worldwide. By sharing information with activists and the general public, and encouraging participation on local, national and international levels, the group aim to pave the way towards greater understanding of a new and environmentally sustainable alternative economics.

This is an exciting venture, which we hope will be replicated in other regions. Our congratulations, and warm good wishes to the organisers. Readers of this bulletin will have missed the first session, but sessions two and three, which will address the kind of society we would like to have, and the means to achieve it, will take place on 17 February and 17 March in Leeds. If you would like to find out more, please email [lorna.arblaster@ntlworld.com](mailto:lorna.arblaster@ntlworld.com)



## Double standards in high places: the BAE Systems corruption investigation

All campaigners demanding a more equitable global economic system, and particularly those calling for increased grants and

broader debt relief, will be used to hearing allegations of corruption against developing country governments. Criticisms vary from 'why should we give our money to be squandered by dishonest and unprincipled regimes' to a more measured 'we must work with such countries to improve their levels of integrity' – but all are based on an implicit assumption that Western governments are in a position to provide a moral lead.

This self-satisfaction, which has always seemed somewhat questionable, was undermined in December when the UK Prime Minister called off the Serious Fraud Office's public procurement investigation into a deal between BAE Systems and Saudi Arabia. Credibility was finally buried when the UK Attorney General, Lord Goldsmith, expressed his agreement with this decision, remarking that '*It has been necessary to balance the need to maintain the rule of law against the wider public interest.*' This response puts in question the independence of the British judicial system, and establishes a precedent that will preclude fighting corruption on a global scale.

It is alleged that the UK arms firm, BAE Systems employed a 'slush fund' of around £20 million to bribe Saudi Arabian officials and members of the Saudi royal family, relating directly to an arms deal that has earned the company around £43 billion over the past 20 years. The OECD and two UK NGOs, the Corner House and the Campaign Against the Arms Trade, have mounted a legal challenge to the UK decision, and 130 UK and international organisations, including **nef**, have written to Tony Blair to protest against the case being called off. Further details can be found in our briefing at <http://www.jubileeresearch.org/news/BAE%20comment%20piece.pdf>.

## Global governance matters



We'll never be able to put the global economy right unless we change the way it's run.

It's a big job – but the IMF's five-yearly Quota Review taking place over the next two years, will mean that developing countries' voices and votes could be high on the agenda. It provides a real opportunity to push things in the right direction – and we're starting to get our teeth into it.

**David Woodward** is writing a paper for the Global Knowledge Network on Globalisation and Health (set up by the World Health Organisation's Commission on the Social Determinants of Health), on how the IMF and World Bank's governance systems impact on health in developing countries. As well as setting out exactly how the way that the Fund and Bank are run disadvantages developing countries, both directly and indirectly, the paper will try for the first time to demonstrate how their governance structures have influenced key

decisions – on debt, financial crises and structural adjustment – and how these have damaged health in developing countries. David is also contributing to the network's final report to the Commission, as a member of their drafting group.

Our evidence to the International Development Select Committee's evidence session on the IMF and World Bank Annual Meetings (available at <http://www.jubileeresearch.org/news/idsc%20submission.pdf>) has been circulated widely, and has come to the attention of the G24 – an international organisation of developing country governments, working on global economic governance issues. They have commissioned David Woodward to write a paper presenting and evaluating alternatives to the IMF's notorious "economically-weighted" voting system, which gives the developed countries half as many votes again as the developing countries, although they have only one-sixth of the population. It will be an important input to the position the G24, and their members, adopt in the IMF Quota Review.

David was also invited by the medical journal, *The Lancet*, to write a comment piece on evidence of "vote-buying" by the US in the UN Security Council. The request followed the publication of a study by two Harvard academics, Ilyana Kuziemko and Eric Werker, demonstrating that aid to countries from both the US and UNICEF (in which the US is particularly influential) increases as soon as the country gets one of the rotating seats on the Security Council, and promptly drops again as soon as their term expires. David's article focussed on the UN, but also provided a perfect opportunity to raise issues about governance in the IMF, the World Bank and the World Trade Organisation. Published in the *Lancet* on 6 January, the article can be found both on our website (at [http://www.jubileeresearch.org/news/LancetCmt\\_Final.doc](http://www.jubileeresearch.org/news/LancetCmt_Final.doc)) and *The Lancet's* ([www.lancet.com](http://www.lancet.com)).

David has also been asked to be an adviser on *The Lancet's* forthcoming series on trade and health, and to contribute an article based on his report *Growth Isn't Working* for a series on globalisation and health planned for later this year.



### **"Good news for the poor"?**

In December, amid much fanfare, the World Bank published its latest annual Global Economic Prospects report, loudly trumpeting "good news for the world's poor" and the prospect of poverty reduction that would be "nothing short of astounding". We decided to take a closer look. And this is what we found....

"The 'good news for the poor', apparently, is that, if you ignore the greatest threats both to the global economy [a US financial crisis] and to the global environment [climate change], and apply an

economic model which *assumes* that the current model of development will give us the best possible outcome, then poverty will fall at barely a quarter of the rate it was falling 20 years ago, which itself is almost certainly a lot slower than it was falling in the 20 years before that. This would mean that in a quarter of a century, more than half a billion people will still live below the "\$1-a-day" line, and nearly two billion below the "\$2-a-day" line, including six in every ten Africans. Four-fifths of those who do stagger up to the "\$1-a-day" line, will do so by increasing their minuscule incomes from half or two-thirds of this level at the painfully slow rate of just 1.5% per year."

You can find our assessment (*Whistling in the Dark: Why the World Bank's Latest Poverty Projections are Meaningless* at

<http://www.jubileeresearch.org/news/Comment%20n%20Global%20Ec%20Prospects%202007.pdf>), and Global Economic Prospects, 2007 at [http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166322&entityID=000112742\\_2006120615502](http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166322&entityID=000112742_2006120615502)).

### **South-North financial flows**

The UN Department of Economic and Social Affairs has just published its annual *World Economic Situation and Prospects*. One of the key points it highlights is the large and rapidly growing net resource flow *from* developing to developed countries – exactly the opposite of what orthodox economics tells us should happen. The idea that the "natural" flow of resources is from developed countries, where capital is relatively plentiful, to developing countries, where it is scarce, is one of the key arguments for free international capital flows. Yet DESA estimates that \$683 billion more went from developing to developed countries than went the other way in 2006, and that there was a net outflow of resources even from the poorest and most capital-scarce countries.



As explained in our article *Water flowing uphill: Why South-North financial flows defy conventional economic logic*, this is the result of two key factors. First, commercial financial flows give rise to a reverse flow of payments – interest on loans and profits on investments. As capital flows continue, the stock of these liabilities builds up, and the payments on them increase, until they eventually outweigh the new inflows.

Secondly, following the spectacular failure of the international response to the Asian financial crisis of the late 1990s, the most successful economies have lost faith in the IMF. Rather than rely on the IMF to "rescue" them, they have decided to build up their

international reserves. But most of these reserves are held in the form of debt issued by developed country governments. So, by presiding over an international system that cannot do its job, the developed countries are effectively forcing poorer countries to lend them money. This is compounded by the massive borrowing requirements of the US, as it spirals towards its own potential financial crisis.

*Water Flowing Uphill* is available at <http://www.jubileeresearch.org/news/SNFinFloGKN1a.pdf>, and *World Economic Situation and Prospects 2007* at <http://www.unctad.org/en/docs/wesp2005.pdf>.

### Forthcoming attractions

We have several other exciting pieces of work underway.

#### June conference on Alternative Economics



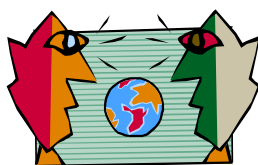
The voluntary association Friends of Le Monde Diplomatique, of which **Susanna Mitchell** is a member, is organising a conference *'It's broke – let's fix it: Finding solutions to poverty, conflict and climate change'* at Imperial College, London in June. Two of the confirmed keynote speakers are **David Woodward**, and **John Christensen**, Director of the Tax Justice Network. The panel will discuss alternatives to the present inequitable and unsustainable global economic system. There will be ample opportunity for audience debate. Full details, and a booking form, will be on our website very soon – and we hope that as many of you as possible will be able to attend.

In **April** we plan to publish the last of our papers on debt relief, which will pull together the work on debt sustainability and odious lending and spell out the administrative arrangements that might promote a comprehensive solution to the debt problem, originally sketched out in *Chapter 9/11*.

The **Jubilee Debt Campaign** is holding its annual conference on Saturday 28th April 2007 in London. Wahu Kaara of the Kenya Debt Relief Network will give the keynote address and the day will feature panel discussions, films screenings and workshops, including a presentation on the comprehensive debt paper by Steve Mandel. See the Jubilee Debt Campaign website for details.

### Rights-based poverty line

David Woodward is working with Saamah Abdallah of **nef's** Centre for Well-Being on two projects to redefine the way we look at poverty, supported by the Network for Social Change and the Greenpeace Environmental Trust. **nef** is developing a "rights-



based" poverty line, that will be defined by what it actually means to live on a given income in a particular country, replacing the standardized (and much too low) "\$1-a-day" and "\$2-a-day" lines. We will also be proposing a "plenty line", as a counterpart to the poverty line, at the point at which more income stops increasing quality of life.

Please keep an eye on our website, for more on these, and other developments at Jubilee Research.

### We need your backing

As you can see, we are working hard to combat global poverty and defend poor country interests. We are deeply grateful for the support you have given in the past, but we need your continued help if we are to go on making an impact. If you can, please sign our Direct Debit Form, or send a contribution to **Jubilee Research @ nef**, 3, Jonathan Street, London SE11 5NH.



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<input type="checkbox"/> Please add my name to your electronic mailing list.	
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Instructions to your Bank or Building Society	Please pay <b>nef</b> (the new economics foundation) Direct Debits from the account detailed on this instruction subject to the safeguards assured by the Direct Debit guarantee. I understand that this instruction may remain with the new economics foundation and, if so, details will be passed electronically to my Bank/Building Society.  Signature(s) _____ Date <input type="checkbox"/> <input type="checkbox"/> / <input type="checkbox"/> <input type="checkbox"/> /2005

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