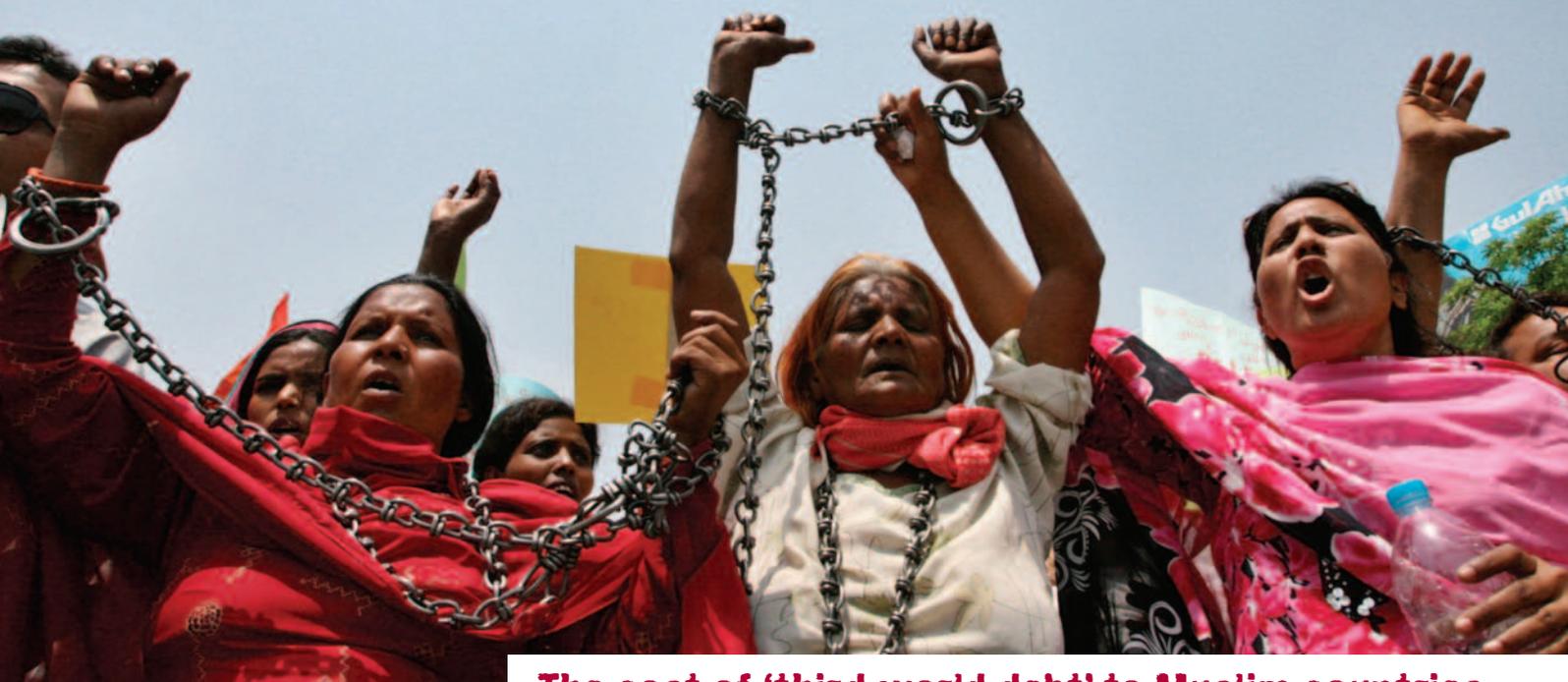


FUELLING INJUSTICE



The cost of 'third world debt' to Muslim countries


**JUBILEE DEBT
CAMPAIGN**



FUELLING INJUSTICE

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Contents

The 'financial crisis' and 'third world debt'.....	2
Debt in Islam.....	3
Hasn't the debt been cancelled?.....	4
Debt in the Muslim world.....	4
Bangladesh.....	5
Indonesia.....	6
Pakistan.....	8
Lebanon.....	9
The way forward.....	10
References.....	10

Foreword

This briefing explains how debt continues to weigh down many developing countries, preventing them from being able to break out of an endless cycle of poverty and injustice. These debts, often run-up in a reckless manner on the part of rich countries and banks over many decades, are the real 'toxic debts' of the financial system.

We will focus on countries with large Muslim populations, looking at how countries like Bangladesh, Indonesia, Lebanon and Pakistan have become massively indebted. Not only do these countries suffer uphill struggles against poverty, they also face internal and external tensions which that poverty fuels.

As we shall see Pakistan, a country with only 54% literacy and where 38% of small children are underweight, spent nearly \$3billion servicing debts last year – almost 3 times what the government spends on health care. The government of Lebanon spent 50% of its budget on debt service, more than twice what it spent on education and health combined. And Indonesia spends more than \$2.5million an hour servicing its massive debts. We believe it is unconscionable that developing countries are paying such vast sums of money to the rich world, at the expense of their own development.

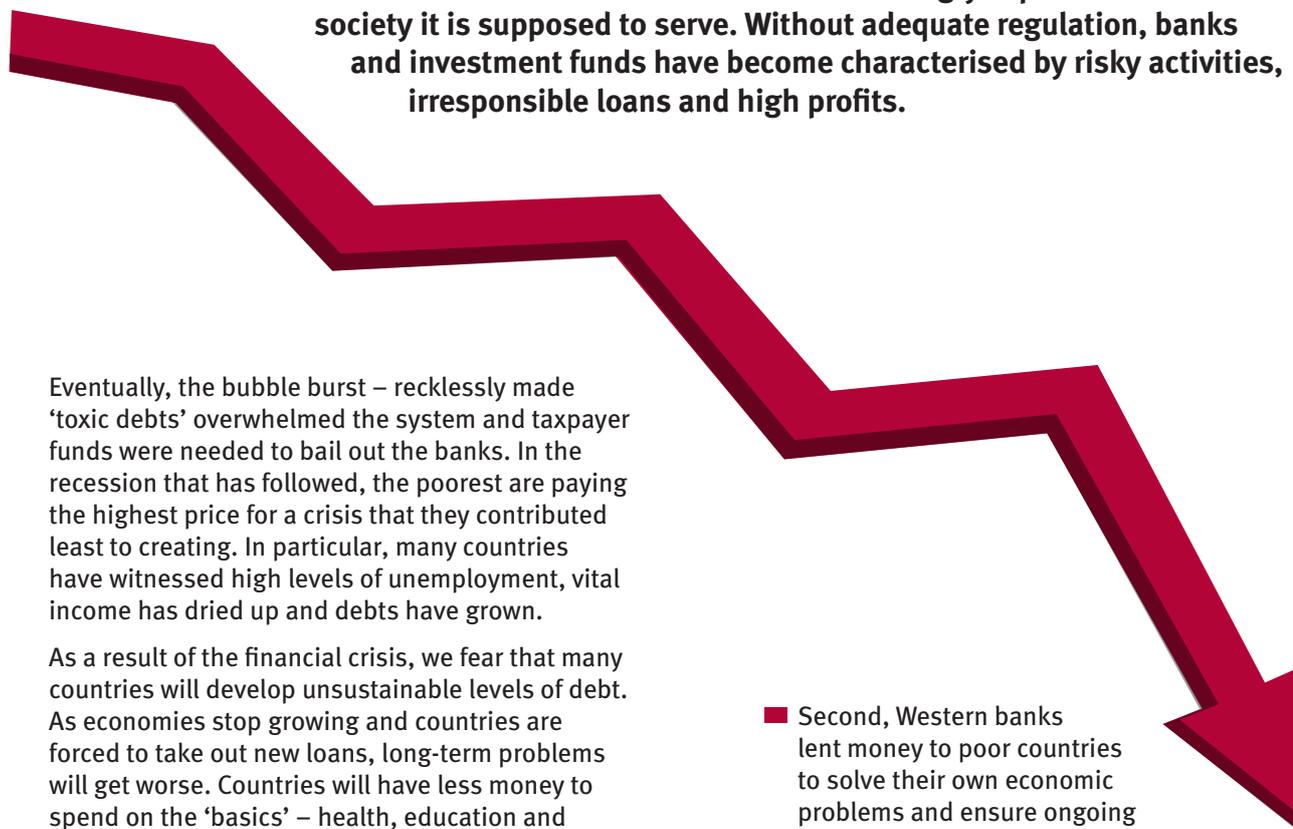
It is also deeply unjust that countries are repaying debts based on reckless and unethical lending: from selling arms to General Suharto in Indonesia, to the World Bank making Bangladesh more vulnerable to the impacts of climate change, to Pakistan taking loans in return for policy reforms that were good for international investors but bad for ordinary people in Pakistan. We cannot hope to build a better world until these injustices are recognised and put right.

We will look at solutions, learning from Islamic teachings which provide important principles for the creation of a fairer economy.

We believe that developing countries cannot be freed from poverty through charity alone. They also need freedom from their debts to achieve wider economic justice, better lives for their citizens, and control over their own future.

The 'financial crisis' and 'third world debt'

Over the last 18 months the whole world has been plunged into an economic crisis. The financial sector has become increasingly separated from the society it is supposed to serve. Without adequate regulation, banks and investment funds have become characterised by risky activities, irresponsible loans and high profits.



Eventually, the bubble burst – recklessly made ‘toxic debts’ overwhelmed the system and taxpayer funds were needed to bail out the banks. In the recession that has followed, the poorest are paying the highest price for a crisis that they contributed least to creating. In particular, many countries have witnessed high levels of unemployment, vital income has dried up and debts have grown.

As a result of the financial crisis, we fear that many countries will develop unsustainable levels of debt. As economies stop growing and countries are forced to take out new loans, long-term problems will get worse. Countries will have less money to spend on the ‘basics’ – health, education and economic development.

- Due to the crisis 64 million more people are expected to be living in extreme poverty by the end of 2010.¹
- The World Bank reports that, even though many very poor countries are not well integrated into the global financial system and have no responsibility for the crisis, they are effected by it because of falling global demand, commodity prices and employment.
- The World Bank also estimates that these poorest countries face more than an \$11 billion shortfall in vital spending on health, education, safety nets, and infrastructure.²

However, for many of these poor countries the current economic hardships are nothing new. They have their roots in an older economic crisis which began in the 1980s – the so-called Third World Debt crisis.

The Third World Debt crisis was created by large quantities of irresponsible lending in the 1960s and 70s:

- First, rich countries lent large sums of money to newly independent countries throughout the Cold War to try to buy their political support;

- Second, Western banks lent money to poor countries to solve their own economic problems and ensure ongoing profits were made. Ironically, much of this money originated from the huge increase in profits that oil-rich countries experienced when they created OPEC to better control oil prices; profits which were then deposited in western banks. This meant that many poorer countries also encountered higher oil prices, which in turn made them even more dependent on loans.

Much of this money was lent recklessly – to unsavoury regimes or corrupt leaders, or for projects which did nothing to benefit ordinary people and which, in fact, served to increase corruption and improper patronage.

In the early 1980s, the same institutions which had lent the money increased interest rates dramatically. At the same time, the world economy was in decline, therefore commodities, which most poor countries were dependent on, fell in value. Many countries were earning less to pay off more.

In turn these countries had to take out new loans – notably from the International Monetary Fund (IMF) and World Bank – just to keep on top of things. No wonder these institutions are referred to as ‘international loan sharks’ by many in the debt cancellation movement.

Despite frequent attempts to ‘restructure’ the debt (giving countries longer to pay it back), interest kept accumulating. Some countries repaid the money they borrowed, but because of high interest rates the debt never decreased in value. Many countries spent more repaying their debt than they spent on desperately needed education and healthcare for their people.

The debt owed by the developing to the developed world spiralled from around \$70.2 billion in 1970 to \$579.6 billion in 1980. Developing world debt today stands at \$3.7 trillion. Countries with large Muslim populations bear some of the most unsustainable debts in the world.

Poor country debt over the decades



Debt in Islam

We live with a financial system in which all of the responsibility for debt is placed on the debtor. Creditors bear little risk, as countries are unable to go bankrupt. And once in debt, creditors have enormous power over their debtors – they can and do have the power to tell them how to run their economy, ignoring the values of accountability and sovereignty. In many ways, debt has been key to the rich world exerting control over the poor world.

The debt crisis, and the ways that debt has been used to exert control over poor countries (forcing them to privatise industries and services, liberalise their trade regimes and impose less strict regulation on foreign investment) has increased inequality between rich and poor. The debt burden also means that poor countries are often unable to provide the most basic services for their citizens.

Islamic principles can provide us with an alternative approach to resolving the debt crisis and tackling unfair international power structures. Islam sees loans as an equal contract – with responsibility shared between creditor and debtor. An important

element of Islamic custom is the prohibition on interest and the call for risk sharing between the lender and the borrower.



This is contrary to Muslim teachings. The Qur’an commands Muslims to stand firm for social justice at all costs:

“O ye who believe! Stand out firmly for justice, as witnesses to Allah, even as against yourselves, or your parents, or your kin, and whether it be (against) rich or poor: for Allah can best protect both.” (4:35)

“You who believe, do not use up one another’s wealth to no good purpose, unless it is for some business based on mutual consent among you.” (4:29)

“You use your agreements in order to snatch advantages over one another, just because one nation may be more prosperous than another nation.” (16:92)

The core belief in Islamic finance is that money should not in itself be an earning asset; therefore Islam commands us to refrain from charging interest and to share financial risk, thereby encouraging responsible lending practices.

As well as encouraging responsible lending, Islam supports full debt cancellation. For those unable to make a payment Islam teaches to wait until the loan can be repaid (with no penalty) or to forgive the remainder of the loan:

“If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew.” (Qur’an 2:280) ³

Hasn't the debt been cancelled?

As a result of campaigning by millions of people around the world, some of the debts of the poorest countries in the world have indeed been cancelled. Debt relief has been agreed as part of the Heavily Indebted Poor Country Initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI), cancelling around £100 billion of debt to date.

There is clear evidence that debt cancellation is among the most effective forms of financing poverty reduction for the developing world. For example, debt cancellation in Mali freed up money to provide salaries to 5,000 community teachers.⁴ In Mauritania only around 40% of births were attended by a health professional before debt relief – now it's nearly 60%.⁵

There are major problems, however. Only 40 countries are eligible for debt relief – and this doesn't include countries like Bangladesh and Pakistan. And while it is important to cancel current debts, it is equally important to make sure that the debt cancellation process is fair and that power is shared by the lender and borrower: in precisely the way called for in Islamic custom. In the current debt relief processes power is in the hands of the creditors and they share no responsibility for bad lending decisions.

As a result, cancellation often means limited relief with a lot of policy conditions attached – forcing countries to restructure their economies in ways which are often unhelpful and always undemocratic. For example, in Afghanistan, the World Bank has attached conditions which forced

the country to undertake privatisations, especially in the banking sector. Many other countries have been forced to privatise vital state industries in order to receive their debt cancellation. Borrowing from the IMF and World Bank has been described as, 'Paying for milk from a cow that you have just had to sell to pay off a debt'.

Often these very same policies were responsible for creating unpayable debts in the first place. For example, Senegal's debt ballooned from the early 1980s as the IMF and World Bank imposed a set of policies on the country including sweeping trade liberalisation and deregulation combined with the dismantling of the public sector, which led to the collapse of agricultural and industrial sectors. A specific example is the forced liberalisation of the groundnut sector in 2002, which provoked a near state of famine in rural areas. As a result of the 'reform', less than 30 per cent of the groundnut crop was collected, farmers lost millions of dollars in income and economic growth was cut in half. Despite this failure, further privatisation and corporate trade rules were conditions for Senegal receiving debt relief.⁶

Perhaps most important, current debt relief schemes do not go to the root cause of the problem – looking at why these loans were given in the first place. Much of this debt is unjust, provided to dictators or corrupt regimes by lenders who knew it would never reach the people or projects for which it was intended.

Debt in the Muslim World

11 out of the 40 countries that qualify for the HIPC debt cancellation scheme are Muslim countries or have a high (over 50% of the total population) Muslim population.⁷

However, we believe that at least \$400 billion more relief is needed, to many more countries, if those countries are to guarantee citizens their basic rights to health, education and a reasonable standard of living. This includes 24 Muslim countries, or countries with high Muslim populations.⁸

Of these countries which have been left out of debt cancellation schemes, we will focus on four in this report – Bangladesh, Indonesia, Pakistan and Lebanon. These countries demonstrate the different ways in which debt continues to be harmful to the fight against poverty in these states.

Debt cancellation to date	Country	Muslim population
Completed debt relief initiatives	Burkina Faso	60%
Completed debt relief initiatives	Mali	90%
Completed debt relief initiatives	Niger	80%
Completed debt relief initiatives	Senegal	92%
Completed debt relief initiatives	Sierra Leone	62%
Completed debt relief initiatives	Afghanistan	100%
Receiving some debt relief	Chad	50%
Receiving some debt relief	Guinea	85%
Not yet entered initiatives	Comoros	98%
Not yet entered initiatives	Somalia	85%
Not yet entered initiatives	Sudan	70%

Bangladesh

Bangladesh is a country renowned for high levels of poverty – it also has a large external debt which is increasing yearly: in 2007 the country's foreign debt stood at \$21.9 billion, rising to \$23.6 billion just one year later, despite the fact that over \$1 billion was paid in debt service in both 2007 and 2008.

50% of Bangladesh's population is living in extreme poverty (under \$1.25 a day). 48% of five-year-olds are underweight, the worst of any country in the world. The government does now spend more on education (14% of expenditure) than debt servicing (10%), but it spends less on health (8%). In other words, debt servicing still accounts for a large amount of money every year.⁹ Indeed, international aid to Bangladesh in the 5 years leading up to 2008, averaged under \$1.4 billion – only a little more than was paid in debt service.

What's more, large portions of the loans which this debt was based on did nothing to benefit the population or environment in the first place. In these circumstances it is important to ask whether it is just to force Bangladesh to repay these loans.

Bangladesh is a country severely impacted by natural disasters. As manmade climate change starts to have a bigger impact on the world, Bangladesh will suffer more and worse disasters – which in turn will contribute to the further impoverishment of the country. This is especially unfair given that Bangladesh has contributed so little to the problem of climate change – in fact the UK has produced more carbon dioxide this year than Bangladesh has produced in its whole history.¹⁰ No wonder some campaigners believe it is the rich world that owes Bangladesh the real debt.

Equity and Justice Working Group (Equity) is an alliance of activists in Bangladesh. It campaigns for economic and social justice, looking especially at trade, human rights, democracy, civic education, information technology, climate change, local governance and popular culture. It attempts to mobilise ordinary people and engage with the government on the issues of climate change and Bangladesh's 'toxic' debt.

Photo: Islamic Relief



Floods in Sylhet, Bangladesh, which has been left out of debt cancellation despite its poverty and vulnerability to disaster.

Climate and debt

Almost one third of Bangladesh is sitting in a natural basin and towards the coast this low lying land is home to 35million of Bangladesh's poorest people. It is also one of the harshest places to live in the world in terms of natural disasters, flooding being a major problem that is set to increase dramatically with the effects of climate change.

The World Bank predicts a 1-metre rise in sea levels by 2100. This may not sound too great, however it will mean 18% of Bangladesh will be inundated with flooding¹¹ leaving a projected 11% of the population as environmental refugees.¹²

Another major threat to the people of Bangladesh's low lands are cyclones. Of 250,000 deaths worldwide from cyclones between 1980-2000, 60% were said to have happened in Bangladesh, according to a UNDP report.¹³ In 1998 20 million people were rendered homeless through flooding, while in 1991 131,000 people were killed, not to mention thousands of livestock and massive destruction of land. This high death rate and financial loss could be curbed, if better warning systems, stronger buildings and more shelters were created. However, the government cannot afford to do all that is needed.

There are serious concerns that, not only have loans given to Bangladesh caused enormous indebtedness to the country, but the very projects which the loans supported have damaged Bangladesh's fragile natural defences. One example is the Shrimp Culture Project, which aimed to boost exports of shrimp and was funded by loans from the World Bank.

In order to expand the country's shrimp farming area, the project saw the destruction of Chokoria Sundarban, the second largest Mangrove forest in Bangladesh. These forests act as a natural barrier from storms, helping to dissipate winds and protect the people living further inland. Removing such a barrier could have a disastrous impact on a country already prone to cyclones. Equity Bangladesh

argues that a loan that has effectively weakened the country's natural defences and which in turn threatens serious impacts on lives and livelihoods, cannot be considered just and legitimate.

The loans have an added injustice in that, in order to receive them, Bangladesh had to undertake the usual set of economic 'reforms'. Reforms included a widespread programme of closures and privatisation of national banks and other state-run enterprises, as well as raising the cost of public services. Conditions also opened Bangladesh up to cheaper imports from abroad, which campaigners believe left some local producers unable to compete and led to widespread job losses.

Ultimately the consequences of the government having to pay back ever increasing debts mean less money is spent where it's needed most. Healthcare and natural disaster defences are just two of the areas where government spending is affected.

Indonesia

Indonesia is one of the leaders of the developing world; its GDP standing at over \$500 billion (Bangladesh's stands at \$80 billion). However, even considering its relative wealth, much of the general population lives in poverty with 61% of the population living on less than \$2 a day. In relation to health care, Indonesia spends \$42 per head (compared to \$5 in Bangladesh but \$3,160 in the UK).¹⁴

Indonesia's foreign debt is truly enormous, currently standing at \$151 billion. In 2008, Indonesia paid \$22 billion in debt service – that's over \$2.5million every hour¹⁵ – of which \$5.6 billion was interest.¹⁶ Although Indonesia has significant amounts of private debt, the government spends 10% of its budget on debt servicing, far more than on health (6%).¹⁷

The International NGO Forum on Indonesian Development (INFID) was established in June 1985. It is a network of charitable and justice groups from Indonesia and aims to give voice to the common concerns of poor and vulnerable people. INFID aims to promote policies to alleviate the root causes of poverty and to improve the conditions of the poor and the disadvantaged in Indonesia.

Solutions

We believe in the establishment of an international 'Debt Court' which would bring debtor and creditor together before a neutral judge. The court or adjudication process would decide whether debts were payable and whether they were legitimate – in other words whether they could and should be paid. The court should take testimony from civil society groups and must be based in a neutral space; the United Nations for instance. Lenders would no longer be in charge of the process and payments could be frozen during the process.

This solution would help enshrine the principle of joint responsibility for debts and would give creditors a clear incentive to make responsible, sustainable loans. Making reckless loans which do not benefit a country would mean the creditor would risk losing repayment of those loans.



General Suharto meets with William Cohen, then US Secretary of Defence, in Jakarta 1998. Suharto enjoyed support from Western governments despite his notoriously oppressive regime.

Dictator, weapons and theft

Much of Indonesia's debt is based on loans given to the brutal dictator General Suharto, who ruled Indonesia for 33 years. Suharto borrowed heavily in order to maintain his position of power and repress the people of Indonesia. Suharto was guilty of crimes against humanity – killing up to 1million political activists in his first year in office, not to mention mass murder in his suppression of islands such as East Timor and Aceh.¹⁸

Indonesia owes the UK £704.6 million. Approximately three-quarters of this debt (£525 million) is for arms sales, including Hawk jets and Scorpion tanks sold to Suharto's regime. The loans assisted the regime in oppressing Indonesian citizens; yet

Photo: Adrian Pringstone



British Aerospace Hawk jet; just one of the weapons supplied by the UK to General Suharto's corrupt and brutal regime.

these same citizens are now repaying the loans. Statements by Indonesian and British government officials confirm that weapons manufactured and supplied by the UK, including Hawk aircraft, Scorpion tanks and water cannons, were used against civilians.

The arms deals on which these loans were based were supported by a British government department called the Export Credits Guarantee Department (ECGD). This department helps British exporters by insuring them to invest in risky political environments. If the recipient country defaults on payment, the UK taxpayer pays the British company concerned, and the amount becomes part of that country's debt with the UK. Defence and carbon-intensive industries, including aerospace and fossil fuel developments, typically make up 75% of ECGD's custom. According to the UK Government, the ECGD lost £597 million on arms sales between 1991 and 2002.¹⁹ Campaign organisations have suggested that the ECGD provides an annual taxpayer subsidy of £222 million to the defence export sector.²⁰

Financial crisis

Indonesia's poverty has been exacerbated by the conditions imposed on them by the International Monetary Fund, requiring the privatisation of public firms, reduction of public spending and increasing interest rates (leading to companies collapsing). The most contentious IMF-imposed action was during the Asian financial crisis in 1997.

During 1997, a massive economic crisis was triggered by financial speculation (essentially gambling on currency value) in South-East Asia. It led to millions of people being made unemployed, as well as thousands of bankruptcies and declining GDP. It was at this time that Indonesia defaulted on its arms payments to UK banks, and the bank debt was taken over by the UK government.

The IMF offered to 'help' Indonesia with new loans, but only in return for the government instituting a series of economic reforms. This included the closing of 16 Indonesian banks and a range of policies known as 'austerity measures' – cutting

public spending, raising interest rates and focussing on inflation. This was a truly massive blunder costing the country billions of dollars, sealing its fate as a heavily indebted country. Interestingly, it is exactly the opposite economic thinking deployed by developed countries in our own economic crisis more recently.

Solutions

The ECGD is the UK's biggest holder of developing country debt; low and middle income countries owe the department £2 billion in debt. Given the scandals that have surrounded so many of the ECGD's policies, we believe it is vital for the ECGD to audit the loans it has made to developing countries over the years, with a view to wiping out those deemed illegitimate.

It is also vital that the ECGD is radically reformed to ensure that it stops supporting projects likely to cause harm, and focus its efforts on stimulating green, sustainable industries in the UK. The ECGD could use its money to foster industries that improve the environment and people's standard of living. But that requires forcing the department to abide by just lending practices and changing the way its insurance scheme operates so that today's projects don't become tomorrow's unpayable debts.

Countries like Indonesia should audit their debts – conduct a full public examination of their lending to decide what they believe was legitimate and beneficial and what they believe was harmful and which the creditor should take responsibility for. Without such audits, there is no incentive for companies to stay away from investments which are profitable, but which damage the human rights and environment of others.

In 2008, Ecuador became the first country in the world to audit its debts. It found that foreign loans had caused 'incalculable damage' to Ecuador's economy, a fact illustrated by statistics showing that in some years, nearly 70% of the national budget had to be diverted towards servicing debts. In 2010 several more countries are planning audits of their debts.



Pakistan

Pakistan's current debt stands at \$49 billion in 2008, up from \$41 billion the previous year. This is a large sum in relation to the country's GDP which stands at just \$165 billion. Pakistan paid \$2.9 billion in debt repayments last year.

Although Pakistan is officially classed as a low income country it is still not considered eligible for HIPC because it has a relatively high level of exports. Yet over 60% of people live below the \$2 a day poverty line. In a country with only 54% literacy and where 38% of small children (under 5) are under-weight, Pakistan's government spends only 0.8% of its GDP on healthcare and 2.8% on education.

The IMF: Making it worse

Pakistan has had poor governance for many years, and has regularly fallen under military rule. These regimes have been backed by Northern (rich) countries like the US, which have given large loans to these governments to support them, while ordinary people have received little or no benefit. Again, lending has supported the ruling elites rather than the majority of poor people, but the poorest 'repay' through continuing to forego basic health and education.

Under the military regime of General Musharraf (2001-2008), Pakistan's debt increased from \$31.6 billion to \$49 billion, as the Government found itself increasingly unable to service past debts. In November 2008, the post-Musharraf government was granted a new \$7.6 billion loan.

Like most IMF loans, this money was supposed to help stabilise a worsening economic (and political) situation. However, the strict conditions applied to the loan include reducing budget deficits, eliminating fuel and electricity subsidies, removing agricultural and income tax exemptions and increasing indirect taxation which will mean that the poor are taxed at the same rate as the rich.²¹ Examples of the effects of these policies include reducing the funding for higher education by 73%.²²

Those who are most vulnerable are afforded some protection from the cuts. But the loans do nothing to change the inequality so deeply rooted in Pakistani society. The IMF has a long history of forcing economic policies on Pakistan including widespread privatisation of financial institutions, opening up trade, and allowing international investors freer access to Pakistan's economy. Forcing privatisation on Pakistan means its industry and services are opened to foreign competition – meaning the government loses control of vital sectors of the economy, prices

CADTM-Pakistan is part of the **Committee for the Cancellation of the Third World Debt**, an international network of individuals and local committees from across Europe and Latin America, Africa and Asia. The network acts in close liaison with other movements and organisations fighting for the same ideals. Its main preoccupation, besides the debt issue, is working for radical economic alternatives which would help create a world respectful of people's fundamental rights, needs and liberties.



of basic services often rise and more money flows out of the country in profits rather than remaining to fuel long-term development.

Austerity measures, increases in indirect taxation, and eliminating subsidies can fall hard on ordinary people. Meanwhile, military expenditure continues to be extremely high, serving the interests of Northern countries fighting the 'war on terror', instead of the people of Pakistan. Who really benefits from Pakistan's indebtedness?

Solutions

For decades the IMF has used the granting of loans and of subsequent debt relief to push a set of policies known as the 'Washington Consensus': allowing goods, services and money to flow more easily in and out of countries, encouraging privatisation and the opening of economies to outside competition. These conditions are very good for large multinational corporations who are able to make money in developing countries without government interference. But they can be disastrous for local producers unable to compete with subsidised foreign goods, and local industries that need

support to thrive.²³ They are also bad for democracy – how can governments claim to be responsive and accountable to their people, when big international banks like the IMF are really pulling the strings.

Recently some donors have agreed to reduce conditions. The UK no longer applies any conditions to its loans or aid. But it still gives substantial funds to the World Bank, who do apply conditions to that money when it's lent out. The IMF itself has just published a report which admits that freeing

up money to flow in and out of countries more quickly (financial liberalisation), a policy they have pushed for many years, has actually made matters worse in many cases and made developing country economies more unstable.²⁴ But conditions still remain an essential element of the IMF's armoury.

We believe aid and loan conditions need to be removed, allowing ordinary citizens, rather than international institutions, to hold their governments to account.

Lebanon

Lebanon's debt, which currently stands at over \$24 billion, has primarily been built up by several decades of conflict. It now has one of the highest per capita debts in the world at over \$5,817 per person, and also one of the highest debt-to-GDP ratios (nearly 91% of its Gross National Income). It 'repays' almost \$4.5 billion every year to its lenders.²⁵ 50% of the government's budget is spent on debt service, far more than it spends on education (9.6%) and health (11.7%) combined.

Lebanon's debts have built up over decades. The country has suffered war with Israel, a 15-year-long civil war and Israeli and Syrian occupations. During the civil war, the average income per person fell by two-thirds, while the provision of health, education, and social services plummeted.²⁶ In addition, Lebanon hosts over 400,000 Palestinian refugees with little ability to sustain such a large population.

Lebanon is considered an upper middle income country (its per capita income is just under \$6,000) and is therefore not eligible for HIPC debt relief. At the same time, Lebanon has large pockets of poverty and a high degree of inequality. Almost 300,000 individuals in Lebanon are unable to meet their basic needs²⁷ and 28.5% live below Lebanon's poverty line. Poverty tends to be concentrated along religious lines – further fuelling tension in the country. Inequality of wealth in Lebanon contributes to the political instability and to the feeling of injustice that leads many to support extra-political means of achieving justice.

The New Economics Foundation calculated that Lebanon needs a 69% debt cancellation to meet the basic needs of much of its population in terms of healthcare, education and infrastructure.²⁸ Lebanon is an emerging democracy trying to establish political stability. No country should have to sacrifice the basic rights of its citizens in order to repay hefty foreign debts which did nothing to make those people's lives better.

Photo: M. Asser



Lebanon has suffered several decades of conflict. This building in Baalbek was destroyed by Israeli bombing in July 2006.

Solutions

National governments have an obligation towards their citizens to provide for the meeting of their basic needs. If a government can only meet its debt service payments by taxing poorer citizens so that they cannot pay for adequate food or shelter and by failing to provide basic health and education services, this violates their human rights.

In judging how much a government should repay, the starting point should be how much it needs to meet basic needs. Put another way, a country needs to calculate the amount of revenue that a government can be expected to raise without increasing poverty or compromising future development. This money could be used to pay legitimate debts. This means protecting government spending needed to meet basic human development needs as well as not taxing those people who already live below the poverty line. If debt repayments were limited in this way, it would also give lenders an incentive not to apply conditions which stop a country's economy from developing – because the less the country grows, the less they will be repaid.

The way forward

We need a radically new way of dealing with debt. We need a financial system where lenders are not rewarded for making irresponsible, reckless and selfish loans and where the poorest in borrowing countries are not punished for these same loans. We need a financial system where the poorest do not go without in order to keep money flowing to the richest part of the world. We need a financial system which allows people in the developing world to hold their governments to account for their actions, rather than having those governments instructed by international banks and Northern country interests.

The recommendations set out in this briefing would go a long way to creating this very different financial system. It isn't impossible but it will take time and energy. But it is essential to building a world free from poverty. Islamic teachings have much to offer such a financial system. And ordinary people in Muslim countries have much to gain.

FUELLING INJUSTICE

Written by Nick Dearden
With thanks to Steve Mandel
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Jubilee Debt Campaign exists to end the injustice of Third World Debt. For every £1 the rich world gives to the developing world in aid, the developing world still pays back £5 in debt repayments. This debt removes money that could otherwise be spent on health and education, it also creates a global power imbalance which has prevented the global South from exercising economic sovereignty, and its people from taking democratic decisions about their future. Only when this debt is cancelled can we begin to move towards a just, equitable and sustainable world.

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Cover image: Labourers wear chains and chant slogans as they protest against bonded labour, Lahore May 1, 2010. REUTERS/Mohsin Raza

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FUELLING INJUSTICE

The cost of 'third world debt' to Muslim countries

This briefing explains how debt continues to weigh down many developing countries, focusing in particular on those with large Muslim populations.

We will look at solutions, learning from Islamic teachings which provide important principles for the creation of a fairer economy.

