

# Issue update

## *Selected Issues on International Financial Institutions*

Volume II, Number 10, – October 31, 2006.

### Norway cancels illegitimate debt

On October 2, in an unprecedented move, Norway's International Development Minister, Erik Solheim, announced that the Norwegian government would unilaterally and unconditionally cancel US\$80 million (NOK520 million) of illegitimate bilateral debt held by Ecuador, Egypt, Jamaica, Peru and Sierra Leone. Acknowledging that these debts stemmed from a "development policy failure", Oslo also accepted that as a creditor country it had a shared responsibility for the debts. Furthermore, the cancellation will not form part of Norway's Overseas Development Assistance, meaning that it will be additional to current aid spending.

The debts were first incurred between 1976 and 1980, when the Norwegian government sold 156 cargo ships to the five countries. The sale was not intended to promote development need, but to bolster Norway's shipping industry. Norway provided export credits to companies in the recipient countries to facilitate the purchase. In the Ecuadorian case, Quito assumed the company's debt when the Ecuadorian Banana Fleet folded in 1987. Although the ships that were originally purchased have never been located, by 2002 Ecuador owed \$50 million on an initial loan of \$13.5 million.

To date, governments have refused to accept shared responsibility for negligent lending that is either politically motivated or that has gone to corrupt regimes, insisting that recipient governments continue to service these debts. Norway's move is therefore incredibly important, and was heralded by debt and development groups around the world.

Norway makes ground-breaking decision to cancel illegitimate debt

<http://www.eurodad.org/articles/default.aspx?id=737>

Upheaval in the Back Yard, Illegitimate Debts and Human Rights - The Case of Ecuador-Norway

<http://www.cdes.org.ec/biblioteca/libros/Libro-deudas-ilegitimas.pdf>

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JUST THE FACTS: What is illegitimate debt?



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## Better late than never - Flaherty meets on Bank and Fund

In keeping with a tradition established eight years ago, Finance Minister Jim Flaherty met with 15 civil society organizations for the first time since taking office to discuss issues related to September's World Bank and IMF meetings. On aid, he implied that the government is keen to "do better with what we have". This may mean consolidating current aid programs in terms of focus, sector, effectiveness and geographic scope, and delivering more concrete outcomes, or "solving problems that are solvable", like TB, malaria and polio. The suggestion was that aid quality needed to be tackled ahead of moving beyond the government's current 8% commitment to increasing aid. On conditionality, the government feels that the IMF needs to focus on providing macro-economic policy advice, and pull back from micro-managing economies. On other IMF reform issues, Ottawa is satisfied with the current changes to member representation at the IMF (see *Issue Update, August 31, 2006*), will be pushing for the resolution of other outstanding issues related to voting power at the board within the next two years, and is strongly supportive of a more open and transparent selection process for the next IMF Managing Director. On the Bank's new good governance and corruption focus (see *Issue Update, September 20, 2006*), the government wants to ensure an anti-corruption strategy can be developed within the Bank that is applied in a systematic, non-arbitrary way.

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## The Norwegian Pension Fund - a model for the CPP

Ms Hilde Jervan, from the Council on Ethics for the Norwegian Government's Pension Fund, was among invited experts who attended the 3<sup>rd</sup> National Roundtable on Corporate Social Responsibility (CSR) and the Canadian Extractive Industry in Developing Countries, held in Calgary on October 10-12. (See last month's Issue Update for more on Toronto.)

Established in 2004, the Council provides recommendations to the Finance Ministry on whether or not Fund investments comply with the Council's ethical guidelines. The guidelines set out two broad criteria for the Fund: it must be managed to generate a sound long term return, in economic, social and environmental terms; and it should not invest in companies engaged in unethical acts or omissions, such as violations of fundamental humanitarian principles, serious human rights violations, gross corruption or severe environmental damages. As a result of the Council's recommendations, Finance has divested from a number of companies, including mining company Freeport McMoRan. It was disqualified because its operations caused serious environmental damage.

Ms. Jervan's presentation contrasted with that made a month earlier at the Toronto Roundtable by the Canada Pension Plan Investment Board (CPPIB) on its new policy on responsible investing. Despite the policy, CPPIB continues to hold shares in numerous mining, oil and gas companies whose operations have been questioned on social and environmental grounds. CPP is a public retirement income program administered by the Federal government.

Norwegian Government Pension Fund  
<http://odin.dep.no/fin/english/topics/p10001617>

## Notice Board

- 📄 On October 13, South Africa, on behalf of the G77 and China, introduced a draft resolution calling for a "Follow-up International Conference on Financing for Development" in Doha, Qatar in 2008. The draft resolution will be the basis for negotiations in the next two months and is to be finalized by December 2006.  
<http://www.un.org/esa/ffd>
- 📄 The International Finance Corporation (IFC), the World Bank's private sector lending arm, released the environmental impact study for two controversial paper mills to be developed on the Uruguayan side of a river that borders Argentina (See Issue Update, April 30, 2006). The IFC has yet to decide whether it will fund the project.  
<http://www.adb.org/Documents/Events/2006/Senior-Management-Consultation/core-labor-standards.pdf>

### New Publications

- "IFC response to "One Step Forward, One Step Back". In late September, the IFC responded to the Halifax Initiative's report on the IFC's new social and environmental policies for private sector investment. The IFC letter speaks to a number of concerns raised in the report, "as a matter of public record". Despite the clarifications made by the IFC, a number of critical weaknesses identified by civil society remain.  
<http://www.halifaxinitiative.org/index.php/projects/821>
- "*In the Public Interest*", Oxfam International and WaterAid, September 2006. This report looks at education, health, water and sanitation, and argues that these essential services will only be expanded in developing countries through a massive investment in public services. It lays down a clear challenge to the World Bank to stop promoting private sector solutions that cannot substitute for government action, and to developing countries to do far more to invest in public services for all.  
[http://www.oxfam.org.uk/what\\_we\\_do/issues/debt\\_aid/public\\_interest.htm](http://www.oxfam.org.uk/what_we_do/issues/debt_aid/public_interest.htm)
- "*Globalisation: the role of the IMF*", House of Commons Treasury Committee, July 2006. The result of an independent enquiry into the International Monetary Fund conducted by civil society, academic experts, the Governor of the Bank of England, and the Chancellor of the Exchequer, this report explores proposals regarding the IMF's role, governance structure, surveillance and analysis functions, lending, and finances, as well as the UK Government's dealings with the Fund.  
<http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/875/875.pdf>

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### Upcoming Events

- "The Ugly Canadians: Festival on the impact of Canadian mining companies in developing countries", Oct. 25<sup>th</sup> - Nov. 3<sup>rd</sup>, Montreal. For further info: 514-495-3131.
- Canadian National Roundtable on Corporate Social Responsibility in the Mining, Oil and Gas Sectors, Doubletree Plaza Hotel, 505 Sherbrooke Street East, November 14-16 (public session, November 14), Montreal, Canada.
- Conference on conditionality for governments and civil society, Royal Norwegian Ministry of Foreign Affairs, November 28-29, Grand Hotel, Oslo, Norway.

## What is illegitimate debt?

Odious debts (see Issue Update, October 31, 2005), illegal debts, ecological debts and illegitimate debts are four broad categories of debt, all considered to be illegitimate.

A debt is deemed odious if, a) the original loan did not benefit the population of the debtor nation in any way and the funds may have been used to oppress peoples; b) the population of the debtor nation did not give its consent to the loan; and c) the creditor was aware of these facts and disbursed the loan anyway. Typically, odious loans are associated with dictatorial regimes such as those of Marcos in the Philippines, Suharto in Indonesia or Saddam Hussein in Iraq. The loans are often politically motivated.

Illegal debts do not respect the basic legal norms and procedures of the debtor country. For example, if the person that signs for the loan is not authorized to do so in the name of the state, the debt is deemed to be illegal.

Everyone has an inherently equal stake in the global environment. When wealthy nations use up more than their share of the world's resources, and do not pay for the negative impacts of their development on the environment, they run up huge ecological debts to the poorer countries. Ecological debts are the result of decades of resource plundering (minerals, oils, forests, and traditional knowledge), destruction of ecosystems and cultural identities, pollution and waste dumping that has left a disproportionate amount of environmental destruction and social and cultural upheaval among populations in the South.

Illegitimate debt applies to ill-conceived projects of a more political than development nature, such as the Norwegian shipping example highlighted above.

SOURCE: Editor's Note - What is illegitimate debt?  
<http://www.eurodad.org/articles/default.aspx?id=737>