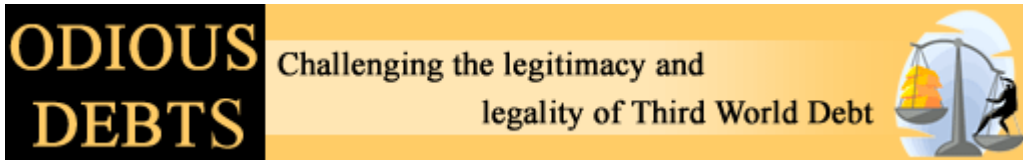


Jubilee Nederland (Henk van den Heuvel)

From: editors@probeinternational.org
Sent: donderdag 26 juni 2008 21:34
To: info@jubileenederland.nl
Subject: Odious Debts Online



News and Analysis

June 24, 2008

Ecuador's mixed messages

In the wake of a new round of reports rekindling fears of a debt default by Ecuador on repayments of foreign loans considered "illegitimate," Ecuador's Finance Minister Fausto Ortiz has stepped forward to curb speculation.

Earlier this month, President Rafael Correa again said he would **annul** debt found to be illegitimate by a commission created last year to audit his oil-producing country's \$10.3 billion external debt, from the period 1970 until June 2006. Correa, described as a 'left-wing' economist, said in his inaugural address on Jan. 15 last year, that his administration deems much of Ecuador's multi-billion-dollar foreign debt illegitimate because it was contracted by military dictatorships decades ago.

More recently, however, Mr. Ortiz **said** that Ecuador is unlikely to default on its foreign debt despite the ongoing audit to determine its legitimacy. Reports Reuters:

"I don't see how the results of the audit will lead to a potential default," Ortiz told investors in New York, adding that President Rafael Correa is a leftist but has "common sense."

Concerns about a default, among other possibilities, will continue in any case thanks to conflicting messages from the country's various officials.

Franklin Canelos, the vice-president of the audit commission that will release its results in mid-July, told Reuters that the commission has found illegitimate operations in nearly all types of credits Ecuador holds.

Mr. Canelos said "the government would use different strategies with different debts" and that the president -- who has the final say -- might choose to suspend some payments but not all. Mr. Canelos also said that the government and its creditors "would have to reach a consensus" on how to handle debt that the audit had found to be illegitimate. In lieu of a consensus? "In case there is no flexibility in negotiations another option could be to take them (creditors) to courts," he said.

This latter 'payback' option is the one creditors should fear the most: exposure as complicit

regarding loans to [past corrupt administrations](#).

Will the Philippines be next?

Cebu Daily News columnist and environmentalist Gloria Ramos in her latest opinion piece, "[Moratorium on odious debts](#)," invokes the doctrine of odious debts in response to high-cost debt hangovers from the corrupt Marcos era.

She writes:

"While countries should honor commitments, including public debts, it is the right of the people to scrutinize the legitimacy of the debts, especially if the government concerned is notorious for corruption, repression and unimaginable despise for transparency and accountability. What is the morality indeed of paying for debt burdens incurred by officials for reasons other than for public welfare?"

Ramos' call for a "Moratorium" comes on the heels of a veto by the country's President Gloria Macapagal-Arroyo of a provision in the General Appropriations Act, which allows for a hold on interest payments for questionable loans. Ramos argues that "it is high time to constitute a multi-sector body that will scrutinize the legitimacy of the so-called 'public debts.' Else, we will create perpetual 'free riders' from the public and private sectors who are never held accountable for ransacking the public treasury."

Ms. Ramos notes an inconsistency in the lending practices of banks when it comes to government-related funding:

"Having worked in several financial institutions in the past, I am aware of the stringent procedures and requirements that banks impose upon their officers and the prospective borrowers to ensure that the project to be financed is viable and that the loan exposure will be duly repaid. The procedures painstakingly crafted in the operating manual is shortened or, worse, discarded when institutions or organizations begin to play "sweet music" with officials in government, on transactions entered into with motives purely for personal gain."

Is the World Bank going soft on corruption?

The East African (Nairobi), June 15, 2008

The appointment of a contentious World Bank country director as the new Bank head of operations and strategy for Africa has critics asking: has the World Bank gone soft on corruption?

Nairobi news outlet [The East African](#) reports that the question "has been raised" in diplomatic and media circles following the appointment of Colin Bruce, the former World Bank country director for Kenya, to the position of director of operations and strategy for Africa at the Bank's Washington DC headquarters.

Mr. Bruce was accused of siding with President Mwai Kibaki's claim of victory in Kenya's 2007 presidential elections, which resulted in shocking violence following disputed polls. In a leaked confidential memo, Mr. Bruce argued that the president's claim should be supported.

During Mr. Bruce's tenure as country director, World Bank spending in Kenya is alleged to have nearly doubled.

The new appointment is seen by some as an indication that Western economic interests (Europe and the United States) might be lessening their emphasis on graft in an effort to compete with China and India -- countries with a different level of concern regarding corruption -- for African resources.

The [Financial Times](#) newspaper noted that the U.K.'s Department for International Development was already "praising the (Kenyan) government's record on economic growth while apparently overlooking corruption and inequities in the distribution of wealth."

Mr. Bruce's new position will make him influential in funding decisions for the continent as a whole.

The gulf on debt

At a recent United Nations' conference on Iraq, the Iraqi government called on creditor countries for further debt relief, arguing that Iraq should not be obligated to repay debts incurred by Saddam Hussein's dictatorship.

The [Associated Press](#) reports that Prime Minister Nouri al-Maliki called on creditors to "consider resolving outstanding debts to Iraq," particularly neighboring countries. Iraq has at least \$67 billion in foreign debt -- much of it loaned by Saudi Arabia, Kuwait, the United Arab Emirates and Qatar during the rule of Saddam Hussein. The Geneva-based U.N. Compensation Commission says a separate \$28 billion remains to be paid for Saddam Hussein's 1990 invasion of Kuwait. Iraq gives 5 percent of its oil revenue to meet the compensation claims.

AP notes vows of relief were not forthcoming from Arab states, most of which did not send any senior officials to the conference.

In his paper, "[Western Countries Cancel Iraqi Debt, Gulf Countries Don't](#)," Iraq scholar and editor of The MEMRI Economic Blog, www.memrieconomicblog.org, Dr. Nimrod Raphaeli quotes commentators who point out that undemocratic regimes insist on imposing false debts on Iraq and that "most of the loans given to Iraq by foreign and Gulf countries were made with the certitude that they had a military objective -- to arm Iraq and support its war against Iran."

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