**Illegitimate debts (Part-II)**

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[Illegitimate](https://dailytimes.com.pk/312126/there-are-no-illegitimate-children/) debt can be used as a tool to free the over-indebted nation from the clutches of insurmountable debts. It needs to find ways and simultaneously to pave ways for proper categorization of debts as illegitimate, unacceptable and inappropriate. Its determination will take into crucial legal, economic and international consequences.

The Republic of Ecuador is a north-western South American country, became the first country to conduct an audit for its public debt portfolio during the period 1976 – 2006 by a commission, comprising Ecuadorian nationals and representatives of international debt relief organizations, in order to ascertain the legitimacy and structure of its foreign debt. The commission was tasked to document the hundreds of allegations of irregularity, illegality, and illegitimacy in contracts of debts incurred under predatory repayment terms. The debts extended were in contravention of the Ecuadorian laws and the basic principles of international law.

Ecuador has used the legitimacy as a legal argument for cancellation of illegitimate debts, this has set a major precedent to the international community and the creation of a debt audit commission to establish the legitimacy, has also set an exceptional precedent to the world.

In the 1970s, Ecuador became targets of predatory international lending, and low-interest rates encouraged borrowing the higher debt at a faster pace. However, over the duration of thirty years, the country’s debt radically jumped from $1.174 billion in 1970 to over $14.250 billion in 2006, a significant twelve-fold increase. Higher interest rates were in large part responsible for the dramatic increase in debts. All this happened at the uncanny discretion of US banks and Federal Reserve from six percent in 1979 to twenty-one percent in 1981.

The commission found that Salomon Smith Barney Inc., a unit of Citigroup Inc., issued unauthorized restructuring of Ecuador’s debt portfolio in 2000 that led to an outrageous level of interest rates. The international lenders have facilitated about $3 billion in borrowing by former Ecuadorian dictators who blew most of the money on the military and has mainly led to poverty and deprivation for the people. Over the years, the country has made debt payments that far exceeded the principal it borrowed, plus significant interest and penalties. Even after multiple reschedulings, conversions, and more borrowings, Ecuador’s indebtedness grew to $10 billion.

Out of all aggregate debts made between 1989 and 2006, 14 percent was spent on social development projects. While remaining 86 percent was utilized to pay for the past accumulated debt obligations. Between 1982 and 2006, the country paid regular foreign debt creditors $119.826 billion including capital and interest, while received over the same period $106.268 billion in new debt obligations, a total negative transfer of $13.558 billion was accrued.

The human costs involved are staggering. Every dollar spent on illegitimate international borrowings means fewer resources are available for combating and reducing poverty. Ecuador has indeed repaid more than the principal it borrowed plus significant interest payments. In 2007, the government made repayments of $ 1.75 billion in debt servicing alone, and it was more than the amount spent collectively on health care, social services, the environment, housing, and urban development.

Ecuador was exposed to high default risk, there were only two options were left open, continue to pay dubious and possibly illegal debts at the high cost of social unrest, face the consequences of default, and by repudiating past illegitimate debts confront the wrath of the international financial market.

Under the World Bank system, there has been a proliferation of investment treaties but essentially lacking public accountability, standard judicial ethics rules, and an appeal mechanism. Ecuador was exposed to a major problem in the international financial system, the absence of an independent established means of resolving disputes for countries over potentially illegitimate and/or illegal debt.

Ecuador’s findings concerning unaffordable debts of the world poorest were moving to set a precedent, and whose unsustainable mountain of debts were being condemned as predatory.

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Ecuador was seriously attempting to forge a united and coherent response to foreign debt. The Latin American countries such as Venezuela, Bolivia, and Paraguay, have also created debt audit commissions to follow the suit. Ecuador is typical of those countries, who have asked the United Nations to help develop global norms for regulating the foreign debt market.

The accelerating magnitude of debt for most indebted nations has made it very challenging, has prevented the low-income countries in many ways the pursuit of development objectives, the economy tends to hit hard by the financial and economic crisis and unable to create the growth needed to pay off the very debts.

We find many countries around the world, obviously, the problem is worldwide in its perspective, these countries are not only heavily indebted but the situation is, even more, worse that they indeed lack the required resources to pay their debt obligations and the nations are ordinarily engaged in debt reorganization renegotiations. Dozens of low-income countries have been stuck in endless rounds of debt renegotiation and what we find in the end, the country is abysmally mired in the vicious cycle of the debt. The harsh reality of poverty in poorer countries, the debts were being borrowed in order to pay current consumption, and the country becomes more indebted. The poverty-stricken nations of Africa, Asia, and Latin America are largely surrounded by the tsunami of debts. It is surprisingly hard to float around the ship loaded with preponderant debts.

The odious debt has necessitated the launching of a national campaign to do away with illegitimate, illegal and unsustainable debts. The existence of strong realization among the people of Pakistan that the odious debts have played havoc with this country and have been suffering considerably from massive debts, which inevitably impacts their lives.

The public must be galvanized into a vibrant movement. The campaign against the illegitimate debt requires to develop a national consensus over the issue. This will spark a comprehensive debate over improper and objectionable debts involving both factual and moral claims. The struggle against odious and illegitimate debt must be in full spate. The starting point is to mobilize the people and launch the campaign against past debts that have indeed wreaked havoc with the people and economy of Pakistan. Helping citizens to understand how the economy works and how to mobilize the people in order to work in a different way. Bringing together a range of people and vibrant civil society groups to bring about a positive change for economic justice. Massive odious debt has been a constant burden, and it causes national and international exploitation and the economy is already confronting the extraordinary pressures. The debt audit must be public, participatory and comprehensive assessment of the overall illegitimate debt incurred by the country. This is certainly a popular step in creating greater momentum against the odious debt and the people are the vital players in investigating and repudiating the illegitimate debts. The key is to fight against the power of entrenched elites, global finance and wealthy countries vis-a-vis the fragile economy.

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