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Letter to the G7 Heads of States, Finance Ministers and Sherpas and the respective embassies

*I would go a step further and propose that, in the future, we consider an entirely new approach to handling the debt problem. The main components of such an approach could include ... establishing a debt arbitration process to balance the interests of creditors and sovereign debtors and introduce greater discipline into their relations.*

Kofi Annan, Secretary General of the United Nations, Millennium Report

## **Fair and Transparent Arbitration Processes for the solution and prevention of debt crises of sovereign debt**

**Hereby we urge you, the Heads of States, Finance Ministers and Sherpas of the Group of Seven (G7) to substantially reform the international debt management procedures at your next summit in Genoa in July 2001.**

The undersigned Jubilee movements and organisations suggest the G7 to alter today's management of international debts towards "Fair and Transparent Arbitration Processes for the solution and prevention of debt crises of sovereign debtors".

### **Historical experience and due lessons**

Recurrent negotiations at the Paris Club since 1956 and so-called Structural Adjustment practised for

over 20 years indicate that present mechanisms of international debt management lead to no viable solution, forcing debtor governments back to the negotiating table soon after they went before. The debt burden has grown

further and the situation of vulnerable groups has deteriorated. Poverty is still on the increase. The Paris Club and the Bretton Woods Institutions have failed to deliver meaningful debt relief by giving too little too late.

We therefore advocate that international arbitration be established as part of a New International Financial Framework to solve the debt problem in line with the principles of the protection of human rights and the Rule of Law. We call this new institutional pattern of dealing with debt a 'Fair and Transparent Arbitration Process' (FTAP).

### **The Procedure of the Rule of Law**

OECD governments apply to themselves the Rule of Law which they preach to their debtors. It is the most basic principle of the Rule of Law that no one must be judge in their own case. This principle is flagrantly violated by creditor governments that are judges, jury, experts and bailiffs when it comes to their own claims. In a 'Fair and Transparent Arbitration Process' (FTAP) an impartial body will conduct the negotiation between creditors and the sovereign debtor. Each side - creditors and the debtor - nominate one or two people, who in turn elect a third or fifth person to reach an uneven number to decide by simple majority.

### **The Precedent of Bottom Line Protection**

In almost all legal systems throughout the world the fundamental principle of debtor protection is widely accepted. Accordingly, individual debtors can not be forced to fulfil debt contracts if this endangers their lives or violates their human dignity. The fundamental right of debtor protection must finally be also granted to the world's poor.

### **A Voice for the Voiceless**

It is the poor who are paying the price of the debt burden. As those principally affected they have a right to a voice in negotiations concerning their future. An FTAP will provide them with a forum to represent their views and the possibility to object to proposals made in the arbitration process, if these put the economic, social and ecological future of the population in the debtor country at risk. This procedure must be fair, open, and transparent.

### **Equal Treatment**

All creditors must be treated equally in a FTAP. There must be no preferential creditor status. As the IMF and World Bank also served as advisors to debtor governments this would make them shoulder their part of the risks incurred due to their advice, finally bringing accountability and financial responsibility to the IMF and the World Bank.

Creditors' claims must be assessed with respect to the quality of their lending policies and advice. Debtors must be similarly treated concerning their borrowing practices. Cases of corruption associated with international lending cannot be dealt with presently in debt negotiations. To address the issue of corruption and moral hazard on the creditor as well as on the debtor side, an FTAP must not only solve a debt crisis but must also identify the politically and economically responsible parties. Irresponsible lenders' claims could be declared ineffective whereas foreign bank accounts of corrupt governments must be confiscated to pay off the debts. In this manner of transparency and accountability, a FTAP consistently addresses the issue of financial stability and helps to prevent debt and financial crises in the future.

## **A Comprehensive Debt Relief Framework**

Our proposal for a Fair and Transparent Arbitration Process addresses two central issues of today's debate. On the one hand it provides a comprehensive framework to overcome the fragmented approach to debt relief of the HIPC-Initiative. Simultaneously, FTAP provides a systemic answer to the so far insufficient approaches to "bail in" the private sector in carrying part of the cost of financial crises and to prevent future crises by reducing moral hazard on the private creditors' side.

As we all know, the G7 is the forum that so far decides upon the policy of international debt management. We therefore expect you to pay attention to the shortcomings of today's debt management and to implement an FTAP as a comprehensive alternative framework for the management of international debts.

Anti Debt Coalition of Indonesia

Berliner Landesarbeitsgemeinschaft Umwelt und Entwicklung (BLUE 21), Germany

Broederlijk Delen en Jubilee 2000, Belgium

Brot für alle, Switzerland

Campagna per la Riforma della Banca Mondiale, Italy

Center of Concern, USA

Centro de Derechos Economicos y Sociales (CDES), Ecuador

Church of Norway Council on Ecumenical and International Relations

Coalition Nationale Jubile 3000 Du Mali

Congregation Justice Committee, Sisters of the Holy Cross, USA

Debt and Development Coalition Ireland

Dette & Développement, France

Diakonie Most, Czech Republic

Erlassjahr 2000, Germany

Erlassjahr 2000, Österreich

Evangelische StudentInnengemeinde in der Bundesrepublik Deutschland (ESG)

Facultad de Ciencias Económicas de la Universidad de Cuenca, Ecuador

Freedom from Debt Campaign Pakistan

Freedom from Debt Coalition, Philippines

Fundación Intervida, Spain

Gemeindedienst für Mission und Ökumene der Evangelischen Kirche im Rheinland, Germany

International Network for Indonesian Development (INFID)

International Presentation Association of Presentation Sisters

Japan Network on Debt & Poverty

Jesuits for Debt Relief and Development International (JDRAD)

Jubilee 2000 Côte d'Ivoire

Jubilee 2000 Czech Republic

Jubilee 2000 Spain

Jubilee Australia Drop the Debt Coalition

Jubilee Plus, UK

Jubilee South

Jubileo 2000 Red Guayaquil-Ecuador

Maryknoll Office for Global Concerns, USA

Movimondo, Italy

Norwegian Coalition for Cancellation of  
Third World Debt

Peru Peace Network, USA

Red Perú Jubileo 2000

Sdebitarsi, Italy

SEDOS Working Group on Debt, Italy

SHALOM (International Network for  
Justice, Peace and the Integrity of  
Creation of the School Sisters of  
Notre Dame)

Südwind, Germany

Swiss Coalition, Switzerland

The Justice, Peace, and Integrity of  
Creation Promoters of the USG  
(Union of General Superiors) and  
the UISG (Union of International  
General Superiors)