EXPORTABLE?

How To Make The Norwegian Debt Audit Transferable To Other Countries

SLETT U-LANDSGJELDA | 2012

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SLUG is an umbrella organization with more than 40 affiliated organizations. Our work consists of raising awareness, campaigning and political lobbying on debt cancellation and responsible lending. Read more about our work, our demands and our principles at www.slettgjelda.no.

SLUG
SLETT U-LANDSGJELDA

Contents

Abbreviations

ACET – Let's Audit Tunisia's Debt

AfDB – The African Development Bank

CPR – Congrès pour la République – Congress for the Republic

CRA – Credit Rating Agency

ECA –Export Credit Agency

GIEK – Garanti-instituttet for eksportkreditt, the Norwegian export credit agency

ToR – Terms of Reference

IDB – Islamic Development Bank

IFI – International Financial Institution

SLUG – Slett U-landsgjelda – The Norwegian Coalition for Debt Cancellation

Key terms

Bilateral Debt – In this case, debt owed by one country to another.

Creditor – The lender

Credit rating agency – The agencies provide investors with ratings that summarize a country's credit-worthiness.

Debtor – The borrower

Debt audit – An audit of debt or loans, depending on if the country carrying out the audit is a debtor or a creditor. Norway's debt audit is a "creditor's debt audit" since it involves auditing debt to Norway.

Debt Conversion – In the context of this report, debt conversion means transferring the assignment of debt from a bilateral creditor to an investor. In practice this means that instead of transferring down payments to a creditor, the debtor transfers the down payments to a company of the creditor's choice, and gets a service in return.

Downgrade – A downgrade from a credit rating agency entails that a country's is evaluated by the agency as less credit-worthy. This may lead to reduced investments.

Illegitimate debt – Debt that is illegal or unfair. A typical example would be debt originating from loans that did not benefit the population in the debtor country because of conditions the lender knew about or should have known about.

Multilateral Debt – Debt owed to institutions such as the World Bank, the IMF or the regional development banks

Portfolio – A collection of financial assets.

Repudiation – The refusal, especially by public authorities, to acknowledge a contract or debt.

Unpayable debt – Debt that cannot be serviced without negatively affecting the basic needs of the people in a country.

The Norwegian Minister of International Development in 2006. He is holding a home-made megaphone with the writing – Do like me, drop the debt.

Sammendrag (Norsk)

Verdens første kreditorland gjennomfører en gjeldsrevisjon: Vil den sette presedens?

Sommeren 2012 kunngjorde den norske regjeringen at Norge som verdens første kreditorland skal gjennomføre en gjeldsrevisjon. Revisjonen innbærer en gjennomgang av utviklingslands gjeld til Norge, basert på FNs retningslinjer for ansvarlig utlån. Gjeldsrevisjonen er et viktig skritt i retning av økt medansvar for kreditorer. En slik gjennomgang vil også styrke forholdet mellom Norge og innbyggerne i låntagerlandene, som i siste instans skal tilbakebetale gjelden. I tillegg kan revisjonen identifisere feil og mangler i dagens utlånspraksis og fremme prinsipper for ansvarlig utlån. Hvis andre kreditorland følger Norges eksempel, kan dette initiativet være et veiskille i internasjonal finans.

Dette er ikke første gang Norge har banet vei med sin gjeldspolitikk. I 2006 kunngjorde regjeringen at den ville slette gjeld som syv land skyldte Norge, basert på kreditors medansvar for feilslått utviklingspolitikk. Dette betød at disse landene kunne øke investeringer i sosiale tjenester og utviklingsprosjekter, i stedet for å betjene gjeld som ikke hadde vært til nytte for befolkningen. Mange hadde håpet at andre kreditorland vil følge etter, men dessverre har dette blitt stående som et ensomt eksempel på ansvarlig långivning. Det er uheldig for land som fortsatt betjener illegitim gjeld at dette banebrytende eksempelet mislyktes i å sette en presedens.

Dette er bakteppet for at Slett U-landsgjelda (SLUG) nå har valgt å peke på hvilke elementer i den norske modellen for gjeldsrevisjon som må endres for å styrke overførbarheten til andre land.

Perspektiver fra Tunisia

Tunisias gjeldsbyrde har vært et debattert tema etter diktator Zine El-Abedine Ben Alis avgang i 2011. Tunisias diktatorgjeld er valgt som case-studie for å illustrere hvordan den norske revisjonen kan være overførbar til andre land, og hva som eventuelt må endres. Rapporten presenterer perspektiver fra representanter fra det tunisiske sivilsamfunn, parlamentet, regjeringen, sentralbanken og akademia. I tillegg presenteres innspill fra frivillige organisasjoner og akademikere fra hele verden i vedlegget til rapporten. Det må understrekes at denne rapporten ikke diskuterer hvorvidt Tunisia bør gjennomføre en gjeldsrevisjon, men hvordan den norske modellen kan overføres til andre land. Innspillene fra Tunisia skal kunne bidra til å styrke overførbarheten til den norske modellen.

Perspektivene som presenteres illustrerer at det ikke kun er én måte å gjennomføre en gjeldsrevisjon på. Uenighetene dreier seg om hvordan revisjonen skal skilles fra krav om gjeldsslette, omfanget av revisjonen, sammensetningen av styringsgruppen samt metodikken. Disse problemstillingene er grundig drøftet og er relevante for andre land som ønsker å gjennomføre en gjeldsrevisjon. Tunisias eksempel illustrerer også de ulike hensyn som tas av kreditorer og debitorer som ønsker å gjennomføre en gjeldsrevisjon. Den viktigste forskjellen mellom disse to gruppene av aktører er den åpenbare forskjellen i risiko:

Kreditorer risikerer ikke å bli nedgradert eller å bli avskåret fra kredittmarkedet ved å foreta en gjeldsrevisjon. Dette trekkes frem som en svært vesentlig risiko av de tunisiske informantene. En kreditorinitiert revisjon kan derfor være viktig for et låntagerland som betaler ned på illegitim gjeld, men som vurderer det som for risikabelt å gjennomføre en egen gjeldsrevisjon. Fordi risikohensynet er svært ulikt for utlånere og låntagerland, er det mer relevant å sammenligne andre aspekter ved en gjeldsrevisjon, som sammensetningen av revisjonsteamet og metoden som tas i bruk i den norske revisjonen. Hoveddiskusjonen i denne rapporten er hvorvidt disse elementene er overførbare fra den norske gjeldsrevisjonen til andre land.

Store mangler

Innspillene fra Tunisia viser at den norske gjeldsrevisjonen har alvorlige mangler som en modell for andre land. Viktigst er det at den anvender en metode som er basert på en skrivebordsstudie. Informantene argumenterer for at en gjeldsrevisjon i Tunisia må kunne undersøke de endelige virkningene lånene har hatt. I tillegg må korrupsjon i lånefinansierte prosjekter undersøkes ved å "følge pengene" i anskaffelsesprosessene.

Innspillene fra de internasjonale aktørene presentert i vedlegget gjenspeiler innspillene fra Tunisia, der det også pekes på behovet for feltbesøk og konsultasjoner med berørte aktører. Det hevdes at det er spesielt vanskelig å forstå hvilke sosiale og miljømessige konsekvenser (FN-prinsipp # 5 og OECDs prinsipper for bærekraftig utlån) prosjektene har hatt ved kun å studere kontrakter og dokumenter på et kontor i Oslo. Disse manglene vil ikke bare gjøre revisjonen mindre overførbar til Tunisia og andre land, det vil også svekke legitimiteten av revisjonens resultater og konklusjoner.

Betimelig å revidere gjeld fra eksportkreditter

Dagens gjeldskriser påvirker mange store kreditorer i USA og Europa, og det er derfor et håp om at kreditorene ønsker tiltak for å sikre bedre regulering av utlån og låneopptak på tvers av landegrenser. Den norske gjeldsrevisjonen undersøker gjeld som stammer fra eksportkredittgarantier. Slik gjeld er av stor betydning for utviklingsland ettersom rundt 80 prosent av all u-landsgjeld stammer fra eksportkreditter, ikke utviklingslån.

Mange OECD-land utsteder flere eksportgarantier enn noen gang for å styrke nasjonale bedrifter. Gjennom gjeldsrevisjonen vil Norge undersøke egen praksis for å finne ut om den er i tråd med FNs prinsipper for ansvarlig utlån. Dette er både betimelig og relevant internasjonalt. Vi håper at den norske gjeldsrevisjonen vil være et viktig første skritt mot mer ansvarlig praksis for eksportkredittbyråene.

Anbefalinger til den norske regjeringen

For å styrke den norske gjeldsrevisjonens overførbarhet anbefaler SLUG at den norske regjeringen:

- Sørger for gjeldsrevisjonen inkluderer feltbesøk til relevante låntakerland.
- Sikrer konsultasjoner med relevante aktører i låntagerland.

Hvis de anbefalte endringene blir tatt hensyn til kan den norske modellen tjene som et sterk og relevant eksempel for andre land som ønsker å gjennomføre en gjeldsrevisjon. For å fremme ansvarlig utlån og låneopptak internasjonalt anbefaler SLUG at den norske regjeringen også:

- Arbeider for at resultatene av gjeldsrevisjonen og anvendelse av FNs prinsipper bidrar til opprettelsen av et internasjonalt rammeverk for ansvarlig utlån.
- Støtter land som ønsker å gjennomføre en gjeldsrevisjon.

Executive Summary (English)

The first ever creditor debt audit: Will it set precedence?

In the summer of 2012 the Norwegian government announced that it would carry out the first ever creditor debt audit. This means that the government will audit developing countries' debts owed to Norway, in order to evaluate Norway's co-responsibility for the contraction of these debts. The debt audit is an important step towards increased creditor co-responsibility. It is also a step in the right direction towards establishing a relationship based on mutual respect between Norway and the citizens of the debtor countries, who are ultimately the ones repaying the debt. Additionally, it can identify flaws in current lending practices and promote responsible lending practices. If other creditors follow Norway´s example, this initiative could be a watershed in international finance.

This is not the first time Norway has broken new ground with its debt policies. In 2006 the Norwegian government's announcement that it would cancel debts for seven countries based on its co-responsibility as a creditor, made it into the history books. This meant that these countries could increase investments in social services and development projects, instead of servicing debt that had not benefitted the population. Many had hoped that other creditor countries would follow suit. Unfortunately, none did. The fact that this groundbreaking debt cancellation failed at setting a precedent is unfortunate for all those countries currently servicing illegitimate debts.

It is with this backdrop The Norwegian Coalition for Debt Cancellation (SLUG) points out what elements of the current model need to be changed in order to make it transferable to other countries.

Perspectives from Tunisia on the Norwegian model

Tunisians have been debating the launch of their own debt audit ever since the Jasmine revolution of January 2011, which resulted in the ousting of the dictator Zine El-Abedine Ben Ali. This report therefore presents Tunisia as a case study, as it is an example of a country that the Norwegian audit could be transferable to. This report presents views from the Tunisian civil society, parliament, government, central bank and academia on the transferability of the Norwegian debt audit to other countries. In addition, input from civil society organizations and academics from around the world can be found in the appendix. It must, however, be noted that this report is not a discussion of whether or not Tunisia should audit its debts, but rather a discussion of how such an audit could best be conducted, and how the Norwegian model best can serve as a template.

The perspectives from Tunisia illustrate that there is no single way forward when it comes to debt audits. Disagreements are to be found on whether the audit should be separated from a debt cancellation process, on the scope of the audit, on the breadth of the steering committee, as well as on the methodology. These issues are discussed in depth, and are relevant for other countries that wish to carry out debt audits as well. Notably, the case study from Tunisia also illustrates the different considerations that need to be made by creditors and debtors that intend to carry out debt audits. Most importantly, there is the obvious difference in risk. The creditor does not risk being downgraded or being cut off from the credit market. However, Tunisian informants cited these issues as significant risks. Therefore, a creditor-led audit could have groundbreaking effects for debtors that are currently repaying illegitimate debts and that consider carrying out their own debt audit to be too risky.

Notably, elements such as the composition of the auditing team and the methodology are more relevant to compare. Consequently, the transferability of these elements of the Norwegian audit to Tunisia is the focus of the discussion in this report.

Gaping deficiencies

Worryingly, the perspectives from Tunisia show that the Norwegian debt audit has

some serious deficiencies as a model for other countries. Employing a methodology based on a desk study is pointed out as insufficient in the case of Tunisia, as the effects of the loans on the ground need to be evaluated. Additionally, corruption in loan-funded projects needs to be investigated by following the money through the procurement processes.

Furthermore, the international perspectives presented in the appendix echo the call for field visits and consultations with affected people. Notably, it is difficult to understand how social and environmental implications (UN Principle # 5 and OECD's Principles for Sustainable Lending) will be considered by studying contracts and documents in an office in Oslo, Norway. These deficiencies will not just make the audit less transferable to Tunisia and other countries; it will also weaken the legitimacy of the findings of the audit.

Timely to audit export credit debts
With debt crises now affecting many major creditors in the US and Europe, there is hope that creditors will take measures to ensure better regulation of lending and borrowing across borders. The Norwegian debt audit examines debt that originates from export credit guarantees. This is of great importance to developing countries as today almost 80 percent of poor countries' debt to other governments comes from export credits, not development loans.

In a time when many OECD countries are issuing more export guarantees than ever in order to boost their domestic industries, Norway examining its practices to determine if they are in line with UN Principles for responsible lending is timely and internationally relevant. Thus, the Norwegian debt audit can be an important first step towards more responsible practices for export credit agencies.

Recommendations to the Norwegian government

In order to make the debt audit more transferable and just, SLUG strongly recommends that the Norwegian government:

- Ensures that field visits to the relevant debtor countries are conducted as a part of the debt audit process.
- Ensures that time is explicitly allocated for consultations with relevant stakeholders in the debtor countries.

If the recommended changes are taken into account, the Norwegian model can serve as a strong and relevant example that other countries wishing to carry out a debt audit can draw on. Furthermore, in order to promote responsible lending and borrowing internationally, SLUG recommends that the Norwegian government also:

- Demonstrates that the results of the debt audit and the application of the UN Principles can feed in to a framework for responsible lending that is internationally relevant.
- Extends support to countries wanting to carry out a debt audit.

1. Introduction

In the summer 2012 the Norwegian government announced that it would carry out the first ever creditor debt audit. This means that the government will have debts owed to Norway audited, in order to evaluate Norway's co-responsibility for the contraction of this debt. The debt audit is an important step towards increased creditor co-responsibility for accumulated debt and towards establishing a relationship based on mutual respect between Norway and the citizens of the debtor countries, who are ultimately the ones repaying the debt. Additionally, it is an important step towards identifying flaws in current lending practices and towards establishing responsible lending practices for the future. If other creditors follow Norway´s example, the initiative could be a watershed in international finance.

This is not the first time Norway has broken new ground with its debt policies. In 2006 the Norwegian government's announcement that it would cancel debts for seven countries based on its co-responsibility as a creditor, made it into the history books. No country had ever done anything remotely similar before. This meant that these countries could increase investments in social services and development projects, instead of servicing debt that had not benefitted the population. Many had hoped that other creditor countries would follow suit. Unfortunately, none did. The fact that this groundbreaking debt cancellation failed at setting a precedent is unfortunate for all those countries currently servicing illegitimate debts.

It is with this backdrop that this report evaluates whether the Norwegian debt audit can become a model for other countries to follow, and if not, what needs to be changed in order for it be transferable. Notably, if other creditors were to follow, it could be life-changing for many developing countries that are heavily burdened by illegitimate debts. In fact, the Terms of Reference (ToR) for the Norwegian debt audit makes it clear that one of the aims of the audit is "…that the process should be conducted in such a manner that it can serve as a successful example of how a debt audit can be carried out. Hopefully this will serve as useful lessons to learn for interested actors, both creditors and debtors."

Therefore, in the fall of 2012 SLUG travelled to Tunisia to gather input for the

On August 15th, the Minister of International Development Heikki Holmås announced that Norway will carry out a debt audit

Norwegian debt audit model. Tunisians have been debating whether to launch of their own debt audit since the ousting of the dictator Zine El-Abedine Ben Ali in January 2011. This report therefore presents Tunisia as a case study, as it is an example of a country that the Norwegian audit could be transferable to. There is now a proposal for a debt audit that is being discussed in the Tunisian parliament. This report presents perspectives on to the transferability of the Norwegian model to the Tunisian context from the Tunisian civil society, academia, parliament, government, labor unions and Central Bank. In addition, input is presented from civil society organizations from Pakistan, Ireland, Spain, Germany, Indonesia, the United Kingdom, Scotland, the United States and Zambia; and from academics. Although this input is placed in the appendix, the discussion draws heavily on it.

Although much of the same methodology can be employed in creditor and debtor debt audits, there are certain elements that are less transferable than others. For example, it would be very difficult for Norway to evaluate its lending through multilateral institutions, as not all of the Norwegian support to the international financial institutions is earmarked for specific purposes. However, borrowing from multilateral institutions is easier to trace, and would be a natural part of any debtor debt audit. Furthermore, there is the obvious difference in risk. The creditor does not risk being downgraded or being cut off from the credit market, which are typical risks faced by a debtor carrying out a debt audit. Elements such as the composition of the auditing team and the methodology, on the other hand, are more comparable. Consequently, the transferability of these elements of the Norwegian audit to Tunisia will be the focus of the discussion.

The report starts with an introduction to what debt audits are and how they can be used, before presenting the Norwegian debt audit model and the guidelines applied in it. Subsequently, the Tunisian context is explained and perspectives from relevant actors in Tunisia are presented. Next, both Tunisian and international inputs to the model are discussed, and concrete recommendations to the Norwegian government are outlined. Finally, in the appendix, input from organizations and academics from twelve countries and four continents on the transferability of the Norwegian model are complied.

2.1 Shapes and Forms of Debt Audits

A national debt audit is a process in which a country reviews outstanding sovereign debts or loans, depending on if the sovereign is a debtor or a creditor. The reasons for conducting a debt audit are by and large twofold: A common reason is to clarify whether or not a country's debt is illegitimate (see Fact Box A). If this is the case, calls for debt cancellation will follow. Another reason is to explore whether the current practices are adequate, or if they fail to ensure responsible lending/borrowing (see Fact Box C).

A debt audit revises loan contracts looking at specific elements, such as the context of the establishment of the contract, the loan conditions, the interest rates, who the responsible parties are, how democratic and transparent the process was, as well as general borrowing or lending practices.

The ongoing financial and Euro crises illustrate not only that irresponsible lending and borrowing is commonplace across the board in international finance, but also that there is a widespread lack of transparency in public finances. Making debt audits the norm would increase responsibility among both debtors and creditors. In fact, audits are required in all other sectors of government, private companies and non-governmental organizations. There is no sound reason for not auditing debt as well. Notably, had the Greek debt been audited properly a decade ago the country's situation now would almost certainly be rather different.

Fact Box A: Odious, illegitimate and dictator debt

Odious, illegitimate and dictator debt are terms used to describe various types of illegal or unfair debt. These types of debt certainly overlap, as both odious and dictator debts are sub-categories of illegitimate debt.

Odious debt

The scholar Alexander Nahum Sack first codified the legal doctrine of odious debt in 1927[3]. In the most commonly used definition, a nation's debt can be considered odious if 1. The debts were incurred without the consent of the people, 2. The loans were not used for the benefit of the people, and 3. The creditors were aware, or should have been aware, of the above two conditions.

Illegitimate debt

Illegitimate debt has no existing definition in law and the term seems almost never to have been used in legislation or court judgments. It is a wider term than odious debt, and in everyday language illegitimacy is associated with something that is unjust, immoral and unacceptable. International debt cancellation organizations have used the term to describe situations where lenders knowingly have provided loans to regimes that have not ensured the interests of the population.

SLUG believes that debt is illegitimate if the borrowed money is used for purposes that do not benefit the population. A common case of illegitimate debt originates from loans that went to failed projects that caused environmental or social damage, and where the lender should have known that these projects were likely to fail. These criteria describe the debt of many debtors today.

Dictator debt

Dictator debt is debt is odious or illegitimate debt contracted by a dictator. A famous example is debt contracted by Mobutu Sese Seko on behalf of Zaire (now the Democratic Republic of Congo) to buy palaces, yachts and private jets. Another is the Filipino dictator Ferdinand Marco who, among other things, is known for having bought his wife more than 3000 pairs of shoes with public funds.

More recent cases include the write-off of Iraq's debts following the fall of Saddam Hussein[4]. It was argued that it would be unethical to require the people and the new government of Iraq to bear the burden of repaying the loans incurred by a dictatorship that used borrowed funds to build its repressive apparatus. The debts were repudiated and the successor government was given a clean slate to begin mobilizing financing for development.

Finally, the Arab Spring has also led to calls for cancellation of dictator debt.[5] Tunisia's debt audit is the first public initiative aiming to clarify exactly how much of the debt contracted by the ousted dictator can be considered odious.

Photo: SLUG

As economics professors from the University of Massachusetts James Boyce and Léonce Ndikumana argue:

"…by freeing governments from the burden of servicing illegitimate debts and strengthening incentives for responsible lending, the strategy yields a better climate for legitimate borrowers and legitimate creditors alike."[1]

Furthermore, in the Guiding Principles on foreign debt and human rights, the UN Independent Expert on the effects of foreign debt, Cephas Lumina recommends the holding of periodic transparent audits of debt by borrowing states, helping to inform future decisions about borrowing[2]. In the guidelines, it is underlined that states must remember that their primary obligations are to their citizens, not external creditors.

A short history of debt audits

Up until now, the history of debt audits has been dominated by debtors intending to audit their debt. As mentioned, Norway auditing its outstanding loans as a creditor is exceptional. The first call for a government-initiated debtor debt audit in modern time was made by Brazil in 1988. While this did not result in a government-led audit, the possibility to perform such an audit was included in the constitution[6]. The only country that has completed a government-initiated debt audit is Ecuador, which did so in 2007-2008. The Ecuadorian audit concluded that there were several irregularities and illegalities in the debt contracts (see Fact Box B).

The example of Ecuador was not lost on other indebted Latin-American countries. On the contrary, the President of Paraguay has decided to initiate an exhaustive audit of his country's external debt, a Parliamentary Inquiry Commission has been set up in Brazil to audit the country's public debt[7], and the Bolivian parliament has passed a resolution to set up a commission to review its debt[8].

In 2011, academics in Ireland launched a comprehensive and thorough investigation of Ireland's debt, which illustrated that the bulk of Irish government debt had arisen from the public bailouts of Irish banks[9]. The findings of the audit have subsequently been used by Irish civil society in campaigns for debt cancellation.

What's more, in 2012, before the Norwegian government announced that it would carry out a debt audit, the parliaments of both Pakistan[10] and the United Kingdom[11] launched their own debt investigations. These are now ongoing processes. There have been calls for debt audits in other countries too, mainly from civil society organizations. An example of this is ZIMCODD's work on a debt audit in Zimbabwe[12], and other organizations' campaigning for debt audits in the Philippines, Argentina and on state level in India[13]. Additionally, in the wake of the Euro crisis the calls for debt audits have echoed as far north as Europe, where Greece[14] and Spain are some of the possible candidates for debt audits, according to some NGOs.

Why oppose debt audits?

There is a lot of skepticism to debt audits and only one country has ever audited its own debt over the course of history. Whether the skepticism is well founded or not, it has succeeded in holding back efforts to address illegitimate debt. James Boyce and Léonce Ndikumana (2012) present counter-arguments to debt audits in their recent article *Debt Audits and the Repudiation of Odious Debts*[20]. They find that critics often use the following counter-arguments:

1. A debt audit process is unfair if the audit commission includes representatives from anti-debt organizations with biased views against lenders.
2. Critics argue that it is not really in the best interest of debtor countries to engage in debt audits, let alone debt repudiation, because they would be penalized by financial markets and lose access to further loans.
3. Critics claim that debt repudiation would encourage irresponsible borrowing by governments in the expectation that debts might not have to be repaid in the future.

Certainly, one must step carefully when designing a debt audit process in order to ensure its credibility. Ultimately, the credibility of the process rests on transparency, independence, fair representation, and appropriate expertise.

Fact Box B: Ecuador's debt audit 2007/2008

The commission in Ecuador included a wide representation of people that delegated auditing tasks to specific sub-groups. Before the audit commenced, the fundamental purpose of the audit was defined: To establish responsibilities and prevent mistakes, and to restore the sovereignty of the Ecuadorian people. The main objectives of the Ecuadorian debt audit were:[15]

- Determining the magnitude of the macroeconomic, social, environmental and cultural effects of debt, from a human rights perspective
- Delivering sufficient and convincing evidence to the Ecuadorian authorities and civil society to allow the adoption of corrective and restorative actions for damage caused by debt
- Determining the responsibility and co-responsibility of external and internal actors, creditor institutions and local entities that took part in the debt process.

The audit lasted over 12 months and it looked at all public debt from 1976-2006. The audit commission concluded that "there had been numerous irregularities in the contraction of loans by successive Governments of Ecuador during the period under review. Their impact breached numerous principles of international and domestic law, including human rights, and these loans were therefore illegitimate".[16] What's more, the report concludes that creditors knowingly imposed unfair conditions on the country in connivance with corrupt national leaders.[17]

In December 2008 and February 2009, Ecuador announced a moratorium on the servicing of certain debts, comprising global bonds, which the commission had found to be illegitimate. In April 2009 the government reached an agreement with foreign creditors to buy back more than 90% of its defaulted debt at 35% of its face value[18]. Consequently, in 2010 Ecuador's total external debt service payments were less than half their average level in the previous four years[19].

An example to follow?

While some civil society organizations point to Ecuador's debt audit as an example of success, others yet point to several flaws in the methodology. For example, the audit draws on principles that are not to be found in international law or that are even generally accepted. Furthermore, many criticize the audit for being too inclusive: Since representatives from almost all parts of the society were a part of the audit, there was no one left on the outside to criticize it. Nonetheless, the audit did lead to substantial debt reduction and it spurred a movement for debt audits across the continent. Notably, as the Ecuadorian case links the audit to repudiation of debts, many countries looking to pursue a debt audit do not want to be associated with the Ecuadorian example in fear of scaring off investors.

Ecuador's president Rafael Correa initiated the first ever public debt audit.

Concerning point 2, there is vast evidence that illustrates that financial penalization is less significant than commonly believed, and it does not last for long as financial markets have short memories.[21] What's more, history shows that if economic conditions improve in a country, lenders and investors will return, despite the country having repudiated on its debt obligations. In fact, the most important factor considered by investors is the country's leadership. The stronger and more effective it is, the more attractive the country will be to investors. A debt audit process can be a part of strong and effective leadership.[22]

A downgrade from a credit rating agency (CRA) is often cited as the biggest threat to developing countries that wish to pursue debt audits. The agencies provide investors with ratings that summarize the extent and type of risk accompanying country-specific bonds. Countries rely on credit ratings as an independent verification of their own credit-worthiness. Notably, many flaws in CRA's methodologies have been uncovered in recent years. The UN has raised concerns regarding credit rating agencies' strong influence in international financial flows and pledged to strengthen modalities "…to enhance and improve the level and objectivity of information regarding a country's economic situation and outlook".[23]

Regarding point 3, such fear of moral hazard is largely unfounded, as professor Ndikumana points out, "a debt audit, if properly implemented, is selective rather than indiscriminate. Creditors who lend in good faith for legitimate projects have no reason to fear a fair and transparent process, and no cause to withhold new lending."[24] Notably, today the lender can expect to have his loans repaid no matter how illegitimate they are.

Fact Box C: Guidelines for Responsible Lending and Borrowing

There are currently few regulations for sovereign lending and borrowing. Thus, there is an ongoing risk of a build-up of new illegitimate and unpayable debt. Without rules to control lending and borrowing considering the growing participation of developing countries in the international credit markets, this risk is only likely to increase.

Although there are currently no regulations for loan contraction, voluntary principles do exist. Several countries have endorsed the UN Principles to Promote Responsible Lending and Borrowing since their launch in April 2012 and they will be applied to the Norwegian debt audit. The Eurodad Finance Charter is much stronger than the UN Principles, but it has received little support from sovereigns.

The Eurodad Responsible Finance Charter

Eurodad's Charter on Responsible Financing proposes contractual changes to loan and investment contracts to help improve the quality of lending and investments in developing countries, and prevent future illegitimate and unsustainable debt and harmful impacts of foreign investment. The principles in the Charter aim to go beyond a do-no-harm approach by outlining standards to ensure that lending and investment actively deliver positive development outcomes. The essential components of a responsible loan and investment contract as outlined in the Charter aim to ensure that:

- the terms and conditions are fair, and the process is legal and transparent;
- the human rights and environments of recipient nations are respected,
- loans and investments contribute to the effective development of recipient nations,
- fair taxation rules are respected,
- procurement is transparent and effective for development,
- loans and investment count on public consent by affected populations, and that
- many possible future problems are pre-empted and that repayment difficulties or investment disputes are resolved fairly and efficiently.

Read more about the Responsible Finance Charter on Eurodad's webpage[25]. The African Network for Debt and Development (Afrodad) also has their own Responsible Borrowing Charter, which can be found on their webpage[26].

The UN Principles to Promote Responsible Lending and Borrowing

The UN Principles on Responsible Lending and Borrowing[27] is a collection of *best practices* for lenders and borrowers in the world today. Thus, the normative contribution of these Principles lies not in the creation of new rights nor obligations in international law but in identifying, harmonizing and systematizing the basic principles and best practices applied to sovereign lending and borrowing. Although the Principles encompass current practice, there is currently no lender or borrower that applies all the principles.

Furthermore, the Principles are somewhat vague and imprecise. Thus, they are difficult to implement for lenders and borrowers without further definition of what each Principles entails. The Norwegian debt audit will be the first practical application of the Principles, and will thereby serve as an example that other lenders wishing to implement the Principles can follow.

The UN Principles include seven Principles for responsible lending, which are:

1) Agency

Lenders should recognize that government officials involved in sovereign lending and borrowing transactions are responsible for protecting public interest (to the State and its citizens for which they are acting as agents).

2) Informed Decisions

Lenders have a responsibility to provide information to their sovereign customers to assist borrowers in making informed credit decisions

3. Due Authorization

Lenders have a responsibility to determine, to the best of their ability, whether the financing has been appropriately authorized and whether the resulting credit agreements are valid and enforceable under relevant jurisdiction/s.

4. Responsible credit decisions

A lender is responsible for making a realistic assessment of the sovereign borrower's capacity to service a loan based on the best available information and following objective and agreed technical rules on due diligence and national accounts.

5. Project financing

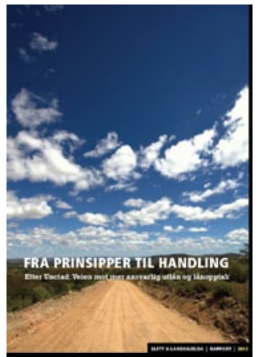
Lenders financing a project in the debtor country have a responsibility to perform their own ex ante investigation into and, when applicable, post-disbursement monitoring of the likely effects of the project. The investigation should examine a projects financial, operational, civil, social, cultural, and environmental implications. This responsibility should be proportional to the technical expertise of the lender and the amount of funds to be lent.

6. International cooperation

All lenders have a duty to comply with United Nations sanctions imposed against a government.

7. Debt restructurings

In circumstances where a state is unable to service its debts, all lenders have a duty to behave in good faith and with cooperative spirit to reach a consensual re-arrangement of those obligations. Creditors should seek a speedy and orderly resolution to the problem.



For Norwegian readers, please read more about the Principles and how they can be interpreted and implemented in the report "Fra Prinsipper til Handling – Veien mot mer ansvarlig utlån og låneopptak" by SLUG[28].

2.2 The Norwegian Model

Norway pioneers debt justice

In 2006, Norway's Minister of International Development Erik Solheim announced that Norway would unilaterally and unconditionally cancel debt because of creditor co-responsibility. The reasoning behind the cancellation was that the claims derived from a failed development project – the Ship Export Campaign of the late 1970s. The failed projects had been acknowledged by Parliament as early as 1988. The required profitability analysis and needs-assessment had been set aside in the interest of quick lending. The result was that development aid was used for lending to poor and risky projects with no developmental effect. When the Norwegian government finally cancelled this illegitimate debt, it was the first time a creditor and an OECD-country admitted responsibility for irresponsible lending, and taken action. The move broke with the silent consensus and practice of the Paris Club (a club of creditors that meet in Paris to discuss debt restructuring) that considered all debt as the responsibility of the borrower and that debt cancellation could only be granted on the basis of debt sustainability.[29]

Professor Kunibert Raffer considers applying the UN Principles to be a commendable feature of the Norwegian audit.

Photo: University of Vienna

The Norwegian Debt Audit

The Tender Document and the Terms of Reference (ToR) for the debt audit can be downloaded from the Norwegian Database for public procurement, Doffin[34]. The main points of the Norwegian model are summarized below.

Independent evaluation commissioned by the government

The Norwegian debt audit will be carried out by a company or consultancy firm independent of the government, but commissioned by the Norwegian Ministry of Foreign Affairs. The tender was released November 13th and the government will sign the contract with the chosen provider of the service by February 18th. The government has underlined that neither the tenderer, nor any of the members of the evaluation team, can have any existing or potential conflict of interest during the course of the debt audit.

A steering committee has been established, consisting of representatives from the Norwegian Ministry of Foreign Affairs and the Norwegian Ministry of Trade and Industry. Norwegian NGOs will have the opportunity to give input at different stopping points, and they have already been invited to give input to the ToR. The Norwegian Ministry of Foreign Affairs will be leading the process and will be responsible for the final decisions concerning the ToR and evaluation outputs. The evaluation will be carried out by an independent team of consultants contracted by the Norwegian Ministry of Foreign Affairs. The evaluation team leader will be reporting directly to the Norwegian Ministry of Foreign Affairs.

The Ministry of Foreign Affairs has asked that the evaluating team should consist of at least three consultants that combined should have the following competencies: Public sector accounting and auditing and development cooperation (also within development finance issues, export credit work, human rights, CSR, legal aspects of development, normative work). At le-

Fact Box D: Campaigning for an Audit

It was after the debt from the Ship Export Campaign had been cancelled that SLUG started campaigning for a debt audit. After all, no one knew if there was more illegitimate debt in Norway's portfolio of outstanding loans. Civil society pressure for a Norwegian debt audit started with a campaign launched by SLUG, Norwegian Church Aid and Changemaker in the autumn of 2008. 11.000 Norwegians ended up signing on to the demand for a debt audit.

The first step forward came in June 2009; when the Norwegian parliament asked the government to consider doing a full review of all outstanding debts developing countries have to Norway[30]. In October that same year, the then newly re-elected Norwegian coalition government followed up by including a Norwegian debt audit in their joint political platform for the period 2009-2013. The platform set the goals of working for "mechanisms to abolish international debts and deal with illegitimate debts, a binding international set of regulations for responsible lending and by applying a Norwegian debt revision scheme".[31] That same year, SLUG also worked with the Indonesian NGO Forum for Development (INFID) to investigate some of Indonesia's debts to Norway, in order to highlight that there is in fact illegitimate debt in Norway´s portfolio (See Fact Box E).

In 2012 SLUG launched a Twitter-campaign aimed at the new Minister of International Development, Heikki Holmås, which actually bore fruit. On August 15th SLUG and other NGOs were invited to the Minister's office, and he announced that the Norwegian government would finally start the work on the world's first creditor debt audit.

SLUG's lobbying: A game of give and take

When the Norwegian Minister of Development announced that Norway would carry out the first ever creditor-driven debt audit, SLUG celebrated. Although the model the Norwegian government had chosen was not what SLUG had originally been campaigning for, over time SLUG had given up on some demands, in order to make the project more feasible politically. Initially, SLUG wanted the debt audit to:

- Go through current debt to Norway as well as debt that had already been cancelled. This way, there would be more examples to draw conclusions and recommendations from. Finally, the scope of the audit only covers current debt.
- Include development country debt owed in the form of government bonds, as well as debts originating from guarantees. The former demand was let go when SLUG realized that the government would never agree to such an all-encompassing audit. Instead SLUG is promoting responsible lending through bond investments in other ways, most recently by launching the report "Ethical Deficit - How requiring transparency from borrowers can make the Norwegian Government Pension Fund Global a more responsible lender."[32]
- Include the aim of cancelling debt. Debt cancellation is not included as a purpose of the audit. As the discussion in chapter six reveals, not having debt cancellation in as a purpose may actually make the debt audit more transferable to other creditor countries interested in doing a debt audit. .
- Apply Norwegian guidelines, the UN Principles Promoting Responsible Lending and Borrowing and Eurodad's Responsible Finance Charter[33]. The latter is not included.

Photo: Kjetil Abildsnes

ast one team member must understand Norwegian.

Purpose

The rationale for the debt audit is stated to be normative. The Norwegian Ministry of Foreign Affairs underlines in the Tender Document that there "…is no reason to believe that The Norwegian Export Credit Agency has acted irresponsibly." Instead, the rationale behind it is to spark debate and promote more responsible lending practices.

Furthermore, the ToR specifies that "…an integral part of this exercise, is the intention that the process should be conducted in such a manner that it can serve as a successful example of how a debt audit can be carried out." Hopefully this will serve as useful lessons to learn for interested actors, both creditors and debtors.

Additionally, the audit is a part of the Norwegian government's intention to promote financial and economic transparency. The audit is also intended to give feedback to the newly launched UN Guidelines on Responsible Lending and Borrowing. The ToR states: "A debt audit will test them and might provide important input to develop them further. Finally, the ToR clearly states that the purpose of the debt audit is not to cancel debt."

Scope

The scope of the audit is limited to bilateral debt owed to Norway by developing countries. This means 961.7 million Norwegian kroner, or approximately 130 million Euros. The debt is owed by 7 countries and originates from 34 contracts. All debt within the scope of this study originates from export credits guaranteed by the Norwegian Guarantee Institute for Export Credits (GIEK). The countries involved are: Zimbabwe, Myanmar, Sudan, Somalia, Pakistan, Indonesia and Egypt.

Methodology

The audit will be conducted as a desk study. The criteria that will be used are:

UN Principles on Promoting Responsible Sovereign Lending and Borrowing (see Fact Box C). These were launched in April 2012 and have already received the support from 14 countries, among them Norway, Germany, Brazil and Argentina.

GIEK's procedures, rules and regulations[35], including OECD's guidelines for sustainable lending and borrowing and OECD's common approaches[36]. Notably, a central point in OECD's guidelines is the requirement that the projects must not be contrary to the economic and social strategy of the recipient country.

When Professor Kunibert Raffer was asked in 2011 about which guidelines should be applied in the Norwegian debt audit, he argued that:

"…arguments and findings must be based on stringent criteria and norms that – though presently not applied when it comes to Southern Countries – are generally accepted. It is important to underline this requirement because it was blatantly neglected by one government-appointed auditing commission in the past. Only logically, legally and technically high standards of argumentation can turn Norway's laudable exercise into a precedent."[37]

As Raffer argues, in order for a debt audit to set precedence internationally, the guidelines applied need to be generally accepted. SLUG therefore welcomes the Norwegian government´s choice to base the audit on the newly launched UN Principles on Responsible Lending and Borrowing[38]. Notably, SLUG hopes and expects that the UN Principles will be interpreted in such a way that will lead to an assessment of Indonesia's loans to Norway as illegitimate (see Fact Box E).

The ToR makes it clear that although some of the debt owed to Norway today originates from times before GIEK's current guidelines were implemented, the debt will be assessed according to current rules. However, when assessing such incidences, the rules from that period will also be presented. Furthermore, the consultants are asked to explore the roles of different stakeholders, such as GIEK, The Norwegian Agency for Development Cooperation (NORAD), the exporter and the private or public partner in the debtor county.

The consultants are asked to propose an appropriate methodology to "ensure an objective, transparent and impartial conduct of the tasks outlined for this study." Finally, the team is asked to outline recommendations based on the findings in the audit.

According to Jürgen Kaiser from Erljassahr.de (see appendix), what seems missing is the research question: "Where and why have control functions not worked, and should they therefore be improved, altered or freshly created?" Naturally, the potential existence of questionable or illegitimate claims implies that not only lending policy has been deficient, but also that oversight and auditing have not worked as they should have.

Fact Box E: Indonesia's Illegitimate Debt to Norway

In 2009 SLUG worked with the Indonesian NGO Forum for Development (INFID) to investigate some of Indonesia's debts to Norway[39]. Shockingly, parts of the Indonesian debt exhibit many of the same characteristics as the debt from the Ship Export Campaign. SLUG and INFID looked into two specific projects that those parts of the debt originate from, and found that the projects were high-risk, experimental and that they had no positive development effects for the population.

The projects were neither initiated locally nor were they initially integrated in the local development plan, as required by OECD's Principles of Sustainable Lending. The report Is Indonesia's debt to Norway illegitimate? concludes that these projects were a development policy failure and that Norway must take its creditor responsibility by cancelling the remaining debt of 11.3 million USD from the two projects the report investigated.

Photo: Magnus Flacké

Fisherman at Baron Beach, from the report Is Indonesia´s Debt to Norway Illegitimate?

The report Exporting Goods or Exporting Debts by Eurodad explores the roots of developing country debt.

Fact Box F: Export Credit Agencies

A large part of the debt that developing countries owe Norway comes from failed business investments. The explanation behind this is that Norway, like other industrialized countries, promotes national exports by ensuring exporters against losses, by issuing guarantees. In doing so, domestic companies investing abroad do not have to take the entire risk themselves. The guarantees issued by the Export Credit Agencies (ECAs) are meant to cover political and other non-commercial risks. It is common practice that the ECA requests the state in the recipient country to make a counter guarantee. The domestic export company is therefore guaranteed to receive compensation, while the financial risk lies with the state in the host country[40]. Norway's export credit agency GIEK (Garanti Instituttet for Eksportkreditt) was established as early as 1929.

The Norwegian debt audit investigates debt, which originates from such export credit guarantees. ECAs are the largest source of public funding internationally exceeding all bi- and -multilateral development assistance. In fact, today almost 80 percent of poor countries' debt to other governments comes from export credits, not development loans[41].

However, ECAs are often criticized for lack of transparency, and for their vague guidelines in relation to environment, human rights, corruption, trade of arms, and development goals[42]. As Øygunn Brynildsen writes in the Eurodad report Exporting goods or exporting debt? (2011)[43]:

"While export credit guarantees boost the coffers of richer countries' Export Credit Agencies, they often weigh on developing country treasuries who must repay the debts. Borrowing for productive investments that promote sustainable and equitable development can be an important strategy for developing countries; however, copious anecdotal evidence provided by case studies reveals that all too often financial transactions guaranteed by ECAs have had damaging impacts on development, the environment and/or contributed to severe human rights violations. Requiring that taxpayers in poor countries repay loans, with seriously contested legitimacy, not only diverts much needed resources away from investing in social services and productive development projects, but it also places these debt repayments in a legally and morally grey zone."

The Norwegian audit of debts originating from export credits is timely, as a part of the government's response to the financial crisis has been to increase the use of export credits in order to support struggling export industries[44]. Furthermore, the audit will have international relevance, as the same trend has been observed for other OECD countries. In fact, guarantees for exports to developing countries from the OECD almost tripled in 2008 compared to pre-crisis levels[45].

Photo: S Foto Catharina Bu

3. The Tunisian Debt Audit: A Project of Transitional Justice

On January 14th 2011, Tunisia's people held a revolution that resulted in the ousting of the dictator Zine El Abidine Ben Ali. The revolution was led by unarmed civilians claiming their right to political freedom and a decent economic life. Unlike so many other regime changes in Africa history, it was undertaken almost wholly without violence.[46]

The Tunisian revolution sparked what has come to be known as the Arab Spring, a wave of revolutionary movements demanding freedom from oppression that swept through North Africa and the Middle East, toppling dictatorial regimes in Libya and Egypt and unsettling several others.

Today Tunisia is in a phase of democratic transition. A new constitution is currently being drafted and the people are demanding transitional justice and systemic change. Meanwhile, economic growth is lagging and unemployment rates are soaring. On top of this, there has been a debate about whether Tunisia should carry out an audit of outstanding external debt contracted by Ben Ali. Section 3.1 is an introduction to the Tunisian debate on a debt audit and 3.2 presents Tunisian perspectives on the debt audit initiative and on how the Norwegian model for a debt audit could transfer to Tunisia.

3.1 The Tunisian Debt Audit in a Nutshell

Since the Jasmine revolution in Tunisia, which ousted Ben Ali, the issues of dictator debt (see Fact Box A) and transitional justice have been hot topics in the Tunisian political debate. In May 2012 the European Parliament passed a resolution on Trade for Change: The EU Trade and Investment Strategy for the Southern Mediterranean following the Arab Spring revolutions, where one of the points was that:

"The European Parliament… Considers the public external debt of the countries in North Africa and the Middle East to be odious debt, considering that the debt was built by the dictatorial regimes, mostly through the personal enrichment of the political and economic elite and the purchasing of arms, often used to oppress their own populations; therefore calls for the reconsideration of this debt, and notably that related to arms expenditure…"[48]

After Ben Ali was ousted, discoveries of massive wealth held by the dictator, his relatives and associates dominated the

Fact Box G: Is Tunisia's External Debt Odious?

The short film on Tunisia's debt produced by ACET, Yezzina meddyound, explores whether Tunisia's external debt is odious. It employs a definition of odious, which states that 1. The loan was contracted without the consent of the people, 2. The loans did not benefit the people, and 3. The creditors were aware of this situation. ACET conclude in the film that all these three criteria are satisfied, as

- Ben Ali was a dictator and was not elected by the populace.
- The money was used to enrich Ben Ali's family as well as to suppress and torture the population.
- The creditors were fully aware of this situation. They point to the IMF as an example of a creditor who knew about Ben Ali's suppressive regime.

When Ben Ali fled the country, he left a debt of 30 billion dinars behind that the new government is now expected to repay.

Photo: Taken from ACET's short film on Tunisia's debt, "Yezzina meddyoun" (47). 3.5 billion dinars (apprx. 2.2 billion USD) went to foreign creditors in 2011. From the table, you can see that this is 3 times more than the budget for health, 6 times more than the budget for employment, 8 times more than budget for social affairs and 8 times more than the budget for regional development.

newspaper headlines. Little is known about whether this wealth was fueled by the embezzlement of borrowed funds, but many deem it likely.

Today, the Tunisian government's external debt is $14.6 billion, 63 per cent of GDP[49]. Foreign debt payments are $1.9 billion a year; 15 per cent of government revenue. Although Tunisia is not a heavily indebted country in absolute terms, it still faces high costs of servicing debt in terms of foregone public spending on social services and rural development.

Two main camps have driven the debate in Tunisia: Those that want a debt audit and those that are against it. Of course, there are also stakeholders in between those two camps, as well as those that consider the proposed audit too weak. Despite disagreements, a proposal for a Tunisian debt audit was submitted to the Tunisian National Constituent Assembly in July 2012. The proposed bill has not yet been voted over by Tunisian parliamentarians, but it has certainly spurred heated debate. It is worth mentioning that to introduce a bill in the Tunisian Parliament; one only needs a minimum of 11 signatures out of a total of 217 parliamentarians.

The submitted audit proposal calls for an audit of all debt contracted under the Ben Ali regime, between November 8th 1987 and January 14th 2011 in order to determine the share of external odious debt that Tunisia is currently servicing. It is clearly stated in the bill that its intention is not to cancel debt, and debt payments will not be suspended while the auditing is carried out. (See Article 10 of the law proposal).

According to the Tunisian law proposal, the audit committee shall be composed of the following members:

- The Chairman of the Finance Committee of the National Constituent Assembly
- The minister in charge of the economy
- The minister responsible for finance
- The Minister of Development and International Cooperation
- The Governor of the Central Bank of Tunisia
- The President of the Courts of Auditors
- The President of the High Court of Administrative and Financial Control
- The president of the national body for the fight against corruption
- Six representatives of civil society organizations and citizens who have experience in the field of audit and public debt
- Four accountants
- Two specialists lawyers, the first in the national law, and the second in international law
- Four representatives of international institutions that are world renowned in fields related to the subject

Although this committee of 24 members would be responsible for the audit, they are free to outsource large parts of the auditing work to other entities. The audit will investigate the legality of contracts, conditions of structural adjustment plans and an evaluation of their results, and the identification of actors who performed procedures related to loan contracts, to name but a few of the audit's functions. After the audit is concluded, and 18 months of work, they will submit recommendations as to how to improve Tunisia's system for external borrowing.

Economics professor and author of the book Africa's Odious Debts, Léonce Ndikumana is optimistic about the prospect of a Tunisian debt audit:

"In signaling such a stand about external debts, the new Tunisian government is setting a historic precedent in Africa that would serve the interests of not only the people of indebted African nations but also those of Africa's creditors and donors. In fact Tunisia stands the best chance on the continent of scoring such a historic achievement given the domestic and international context.[50]"

Fact Box H: Contemporary Tunisian Politics

The current government of Tunisia is a coalition often referred to as the Troika. The biggest party is the Islamic party Ennahda, which rules with the smaller parties Congrès pour la République (CPR) and Ettakatol. The Prime Minister Hamadi Jebali represents Ennahda, while the president, Moncef Marzouki, represents CPR. This government has been in place since December 2011. New elections will be held after a new constitution has been agreed upon in the National Constituent Assembly.

CPR launched the proposal for a debt audit in the parliament without the support from Ennahda. The proposal is currently being debated in parliament, and it will probably be voted over in the beginning of 2013. The Ecuadorian President has already offered to help the decision making process by offering to share his country's debt audit experience with Tunisia.

The Troika's Seats in Parliament

Ennahdha	89/217	(41%)
CPR:	17/217	(8%)
Ettakatol	16/217 (7%)	

Source: The National Constituent Assembly of Tunisia / www.anc.tn

The Jasmine Revolution was led by unarmed civilians

Photo: cjb22/Flickr

3.2 Perspectives from Tunisia

This section presents various Tunisian perspectives on the Tunisian debt audit and the relevance of the Norwegian model for Tunisia. Interviews were conducted in November 2012, with representatives from the parliament, the largest labor union in the country, civil society and academia.

The section begins with an interview with the parliamentarian who introduced the bill proposal to the Tunisian parliament, and her reasons for doing so are elaborated on. Next, interviews with the debt audit skeptics in the government and the Central Bank are presented. They make it clear that they consider the risks involved in carrying out a debt audit much higher than the possible returns. Thereafter, interviews with a Professor in Finance and a representative from the largest labor union in Tunisia are presented. They both point to the need for field investigations and "following the money" in the Tunisian context. The labor union representative also gives some examples of projects where one may find corruption in Tunisia. Finally, interviews with civil society representatives from the organizations Let's Audit Tunisia's Debt (ACET) and Rally for an International Development Alternative (RAID) are presented. They both point to the fact that the narrow steering committee in the Norwegian debt audit model would not be transferable to Tunisia, and that civil society would need to be included in the Tunisian debt audit. Finally, the representatives from RAID also point to weaknesses in the bill launched in the Tunisian parliament. The relevance of these inputs to the Norwegian model is discussed in more detail in the subsequent section, section 4.

Photo: Cathaina Bu

Mabrouka Mbarek: The parliamentarian who initiated the audit

Mabrouka Mbarek is a Member of the Tunisian National Constituent Assembly for the Congrès pour la République (CPR). CPR is in a coalition government with two other parties, Ennahda and Ettakatol. Mbarek has worked as an auditor in the US and as an international development consultant. See her website: http://mabrouka.org. SLUG conducted interview with Mabrouka Mbarek on November 25th 2012.

The Tunisian audit: A project of transitional justice

Mabrouka Mbarek explains that the Congress for the Republic articulates its economic platform essentially on the notion of economic sovereignty especially food sovereignty. That is why they launched the debt audit proposal. She considers a debt audit to be a natural step for a country emerging from a dictatorship. She explains:

– We, new Tunisian politicians, have accessed to high responsibilities but we inherited a corrupt and opaque regime. When you don't understand the legacy what do you do? You audit! You don't have to be a previous auditor like me to understand that amongst the first phase of a post-revolution transition you need to make an analysis before taking decisions. Auditing and understanding the system we are inheriting is directly linked with transitional justice. We also wish to learn from past mistakes and find out what we need to reform in order to make our borrowing more responsible and tell creditors how to improve their due diligence process to avoid maintaining a dictatorial regime with loans.

Mbarek explains that there are many legitimate reasons to think that Ben Ali was corrupt, which also supports her argument for an audit. Mbarek mentions that returning assets stolen by the dictatorial regime has been very challenging, as foreign countries are requiring that Tunisia provide sufficient evidence that assets were bought with public funds. The need for an audit came up:

– Some countries admitted that they have houses and cars and assets that belong to Ben Ali, but they refuse to give them back to us unless we prove that the money used to pay for these things came from the Tunisian people. They are saying we have to follow the flow of money and find out where it went and track money laundering. In order to do that, we have to do an audit.

The fear of repudiation and downgrading

Although Mbarek considers a debt audit to be a necessary element of transitional justice, she recognizes that there are many opposing forces to her suggestion. She underlines that the audit is not intended to send a bad message to international institutions by saying they are as bad as Ben Ali because they helped him. In Tunisia, critics are saying that creditors will think that Tunisia is refusing to repay its debt, like Ecuador. However, it is worth noting that many countries have decided to not repay debt without it having negative consequences for loans and investments. Mbarek therefore points out that her intension is to "…keep servicing our debt, but an audit will still help us get back our assets, it will help us know where the money went."

Mbarek explains that when the law was introduced in July, it created a lot of debate. People called it a war against international financial institutions (IFIs).

– Credit rating agencies sent us reports warning us that they would drop our grade. But the fact is that we are not trying to break away from the IMF or from Europe, it is merely a part of transitional justice. The media, however, misrepresented the whole deal, and publishing articles on Tunisia not wants to repay debt. This has led to lack of trust from investors.

More support needed for the audit

Mbarek recognizes that better communication and support both inside the parliament as well as outside the country will ease discussing of the bill. Recent support of 120 European MPs and the Belgian senate to call for an audit of the Tunisian debt and even cancelling it constitute a major support of the bill.

Mbarek wishes Tunisia would receive more international support for the initiative. Correct communication is especially important internationally in order to avoid any misinterpretation from IFIs. She does not want to take risks on the part of the Tunisian people, as Tunisia needs investments now that there are serious unemployment problems and growth is lagging. Any negative comment could be devastating.

The Norwegian audit: Not entirely transferable

Mbarek agrees with the purpose of the Norwegian debt audit; that the aim should not be debt cancellation. This way, there will be more support for the initiative. When it comes to the organization of the steering committee, however, Mbarek does not think the Norwegian model would be transferable to Tunisia.

She explains that outsourcing the audit to external auditors does not respond to the imperative of participative democracy and a national reconciliation process. In the Tunisian context, citizens and various governmental and non-governmental stakeholders participate in the auditing process. She does see elements that Tunisia can draw on as well though, such as the precise skills to require from the auditors. The requirement that involves that parties have no conflict of interests is particularly important, says Mbarek.

The Tunisian Constituent Assembly.

Chaker Soltani på kontoret sitt i Finans-departementet

The debt audit skeptics

SLUG conducted an interview with the governor of the Central Bank Chedly Ayari on November 29th and with The Director General of the Public Debt section of the Tunisian Ministry of Finance, Chaker Soltani, on November 30th.

The representatives interviewed from the Central Bank and the Ministry of Finance were thoroughly against the debt audit initiative. Central Bank governor Chedly Ayari spoke of threats from credit rating agencies that have already been in touch with the Tunisian Central Bank with questions and warnings. – There is no doubt that we will be downgraded if the debt audit advises debt cancellation, Ayari says. –They will understand the launch of a debt audit as repudiation.

Ayari is of the perception that a debt audit would be counter to the nation's interest, as the country depends on foreign loans and investments. – While they are giving us loans, we are auditing them? It is not possible. It is disrespectful, he says. He has been advising the government not to enter the Auditing Committee if it gets passed in Parliament. Instead of auditing debt, Ayari proposes debt conversion. France and Germany have already converted parts of Tunisia's debt into investments; something Ayari believes will benefit the country greatly.

However, Ayari does recognize that if the debt audit initiative comes from the creditor countries, it is unproblematic. –If creditors will encourage us to audit debts to them, we would launch the audit tomorrow, he says. –The problem is that they are not OK with this.

The Director General of the Public Debt section of the Tunisian Ministry of Finance, Chaker Soltani, points out that the majority of Tunisian parliamentarians are not in favor of a debt audit. Furthermore, he claims that the debt is already sufficiently audited, both by the Tunisian auditing entity, Contrôle Général des Finances, as well as the international financial institutions themselves. He explains that both budget support loans and project loans are subject to strict financial rules and regulations, and that these procedures were the same even under Ben Ali. Thus, there cannot be odious debt in Tunisia's debt portfolio.

Soltani underlines that even if there were odious debt to be found, it would be a very small amount and it would be a bad idea to audit it and expose it as a storm in a cup. This would create problems of market confidence and reduce access to credit markets. Soltani has already been in discussions with the IFIs to assure them that Tunisia will keep servicing its debts. – This is for the best of the country, Soltani says.

In contrast to Ayari, Soltani accepts to be a part of the Auditing Committee if the law should be passed in the National Constituent Assembly. Soltani considers the debt audit to be a large job, and would propose to perhaps choose two or three loans per creditor to audit, in order to make the process easier. Furthermore, much of the work would have to be outsourced to experts.

Professor in Finance:"Follow the Money"

Wajih Abbassi is Professor in Finance at IHEC Business School of Carthage in Tunisia. SLUG conducted an interview with Wajih Abbassi on November 30th 2012.

Professor Wajih Abbassi is impressed by the Norwegian initiative and considers the aim of increasing responsibility and learning from mistakes commendable. He considers this aim to be transferable to the Tunisian context, as connecting the debt audit to cancellation would be politically too sensitive.

However, not all elements of the Norwegian debt audit are transferable. To begin with, it would be necessary for NGOs and independent experts to be in the steering committee of a Tunisian debt audit. Otherwise, one could not be sure that the committee would do a solid job.

In addition, there would be no point carrying out a debt audit in Tunisia if it did not involve travels to the projects financed by loans to find out if the funds have been put to good use. According to Abbassi, the problem is that credit has been going from Italy or France to Tunisian banks and from the banks to private companies. It is only in the second step that one will find lack of transparency and corruption. If an audit fails to investigate the relationship between banks and private companies, odious debt will be overlooked. He explains that Tunisia has had a strong and competent bureaucracy and little corruption will be found at this level. He says:

– The problem with transparency is to be found in the public procurement process and this would need to be investigated in a Tunisian debt audit. One would have to follow the money, because on the surface it looks clean.

Internal and external pressure

Abbassi says those that are fighting for a debt audit are facing pressures from two areas – from private investors within the country as well as international creditors. He says large creditors such as France, Italy and Japan would not accept it if Tunisia decided to not repay their debt. Furthermore, the audit scares domestic investors. The companies that financed Ben Ali are now financing the biggest political party in Tunisia, Ennahda. Therefore, Ennahda is not likely to agree to a debt audit. The parties on the left, however, are not financed by businesses to the same extent as parties on the right. Thus, if the parties on the left had more power, there would be a better chance of a Tunisian debt audit, Abbassi explains.

According to Abbassi, what is really needed in order for a debt audit to be realized is a courageous government. Ecuador has done it. Norway is doing it. It is possible to do, but the politicians are scared. In order to spur political will for an audit, one would need to increase popular education, Abbassi reasons:

– Reach out to people in the South and show them that this matters for them. There are places in the South where people knew nothing of Ben Ali's departure until months after the revolution.

Examples from Tunisia's debt portfolio

Karim Trabelsi is head of the Unit for Tunisia's relationship with multilateral banks at Tunisia's largest union, Union Générale Tunisienne du Travail (UGTT – www.ugtt.org.tn). He is also the coordinator of the Coalition of civil society of the African Development Bank (www.coalitionafdb.org). SLUG conducted an interview with Karim Trabelsi on November 14th 2012.

Karim Trabelsi explains that there were several campaigns for both debt cancellation and a debt audit before the debt audit proposal was submitted in parliament in July 2012. The bill was submitted in the midst of a lot of political turmoil involving personal conflicts between the Prime Minister from Ennahda and the President from CPR. According to Trabelsi, the audit is a part of a political game played between these two parties, and President Marzouki is using it as a political tool.

Trabelsi explains that while he has not yet done an audit himself, he knows of a number of projects financed by the African Development Bank (AfDB), which have led to substantial benefits for the Tunisian population. There is a degree of transparency and there have not been any big corruption scandals. Trabelsi explains that one must understand the Tunisian context, as it is quite unique:

– It is true that we have had a dictator, but it was not a classic dictatorship. It was a sophisticated dictatorship. We had a dictator who knew what he was doing. He did not just put the World Bank's money in his pockets. He was very aware of his image in the West. He used the World Bank and the IMF to soften his image. The corruption in Tunisia took place more in privatization processes and in transactions with some Arab companies and countries.

Notably, Trabelsi explains that Tunisia has received a lot of support from the West after the revolution. France and Germany have converted Tunisian debt into investments without a debt audit. Barack Obama guaranteed loans from the World Bank to Tunisia. – These are clear signs of political support for the revolution, Trabelsi explains. He points out that Tunisia has not had the same support from its Arab allies.

A look into Tunisia's debt portfolio

According to Trabelsi, the debt audit will have to look at all types of loans, although this is not specified in the bill proposed in parliament. Moreover, it is important to note that not all debt is illegitimate. While Trabelsi does not believe there is much illegitimate debt to be found from auditing debts originating from the multilateral banks, he has no idea what one will find if one audits bilateral debt.

However, there are a few projects funded by multilateral banks where one will find a lot of corruption, Trabelsi points out. The airport Enfidha that was built between 2003 and 2008 is an example of such a project. It was expensive and jointly funded by the AfDB, the International Finance Corporation (IFC), the World Bank and bilateral programs. Another interesting project Trabelsi would like to see audited is the large road in the South between Tunis and Sfax, which was funded by the Islamic Development Bank and the AfDB. – The resettlement policy of this project was not transparent or accountable, Trabelsi explains.

Norway's debt audit: Methodology and organization not transferable

Furthermore, Trabelsi points out field visits as an integral part of the Tunisian debt audit. Financial, social and environmental aspects of the projects must also be considered, so interviews with the populations in proximity of the projects must be carried out to find out what social and environmental effects they have had. – Certainly, a desk study could be a first step, but it is not sufficient, Trabelsi explains.

In addition, a steering committee led by the government would be inadequate in the Tunisian context, Trabelsi states. In the Tunisian context, what would be most fruitful is a joint committee with members of government, the National Constituent Assembly and representatives from civil society. Furthermore, this committee must be provided with an independent budget and resources so that proper research can be financed. It would not be sufficient if the parliament were to be in the steering committee alone, nor the Government, Trabelsi concedes. Of course, the committee can hire experts to do much of the work, Trabelsi explains.

Nonetheless, Trabelsi does consider the Norwegian work plan to be useful for Tunisians working with the debt audit, and they can certainly draw lessons from the Norwegian experience. The greatest challenge for those conducting the audit, in Trabelsi's point of view, is how to trace the funds from budget support loans. Project loans are more straightforward. But with budget support loans, the same loan can go to many expenditures– wage increases, the health budget, equipment for schools, the military budget, or any other part of budget. In this case the audit will be very complicated.

Purpose: Not to cancel debt

The point in the Norwegian model that Trabelsi highlighted as the most relevant was the clear objective. He says: "it would be a mistake in the Tunisian context to put in the document that the objective of the debt audit is to cancel debt. It is not our debt to cancel, we are not the creditor. We do not have petrol, we need international loans. All the big projects in Tunisia are funded by these banks."

He explains that it would be catastrophic for the Tunisian economy to follow the example of Ecuador. – We do not have alternatives to the World Bank, the IMF and the AfDB, we depend on them. Ecuador had alternatives; they had guarantees from their allies in Latin America.

Photo: Kai Schreiber

Corruption is believed to have been widespread in the construction process of Enfidah airport, formerly named Zine El Abidine Ben Ali Enfidah Airport. The project was funded by multilateral development banks.

Photo: Cathaina Bu

"Not just an economic issue"

Jihen Chandoul is the spokesperson for the organization Auditons les Créances Envers la Tunisie (ACET) or Let's Audit Tunisia's Debt. She is currently working in Tunis to lobby for a Tunisian debt audit. ACET campaigns for both creditor debt audits of Tunisia's debt to Europe as well as a Tunisian debtor debt audit. ACET was started by Tunisian-French students in Paris after the revolution in 2011, and it has since become a European-Tunisian movement. It was an umbrella organizations consisting of students, political parties, associations and organizations from Europe and Tunisia before it become an independent association. Visit their website: http://yezzina-meddyoun.org and the platform they created in Arabic and French to campaign for a debt audit in Tunisia: http://yezzina-meddyoun.org. SLUG conducted and interview with Jihen Chandoul on November 12th2012.

ACET was started less than two years ago, but we can see that this issue has already had many victories, the spokesperson for ACET, Jihen Chandoul, explains. ACET has been able to gather several actors from France and Tunisia who support the debt audit. The campaign for a debt audit was first launched by the Rally for An International Development Alternative (Raid) but supported by ACET and other across Europe. The campaign resulted in strong political support, illustrated by 120 European parliamentarians signing on to a petition to support creditor debt audits of debt contracted by Ben Ali (51).

ACET assisted Mbarek in the drafting of the proposal for a debt audit that is currently being debated in parliament. Chandoul envisions the auditing work being led by a committee of ten people, consisting of researchers and members of civil society. In addition, the Central Bank, the Ministry of Finance, the Ministry of Cooperation and Development and the Financial Committee of the National Assembly will be a part of the committee. – It is necessary that they are there, so that they can ensure that the auditors have access to necessary contracts and documents. But we have to make sure that independent and honest actors relevant to the audit are also in the committee.

Chandoul explains that the audit must look at legal, economic, social and environmental aspects of the debt contracted by Ben Ali. This is also a way to explain that debt is not just an economic issue. Of course, in order to evaluate these aspects, field studies would be necessary and the results should be published gradually during the audit.

According to ACET, the fight against debt will be fought in two phases. The first step is to have a debt audit carried out. The second step will be to campaign for debt cancellation on any illegitimate debt uncovered by the audit. A good idea in the second phase would be to have a referendum following the results of the committee.

Photo: Cathaina Bu

Activists demand repudiation

Rally for an International Development Alternative (RAID) is a part of the international networks Attac and Committee for the Abolition of Third World Debt (CADTM). RAID was created in 1999, and during the dictatorship of Ben Ali RAID was an illegal organization. Finally, after the revolution, RAID has been legalized. Since then, their priority has been their domestic and international campaigns on Tunisia's debt issues. See their website: http://www.tunisie.attac.org/drupal-6.20/fr/node/67 SLUG conducted interviews with Fathi Chamki and Julie Marsault on November 24th 2012.

Fathi Chamki welcomes the Norwegian initiative, as it is the first time a creditor is taking responsibility for its loans. This has never been done before. Even if the Norwegian debt audit will not have direct effects for Tunisia, it will have an important symbolic effect. Chamki explains:

It will show our creditors that such creditor co-responsibility is possible. If it affects France and Italy, it will have an enormous effect on Tunisia. We will use the example to show that a creditor debt audit is not something unimaginable.

Julie Marsault, who also works at RAID, says that there is a difference between an audit done by debtors and one done by creditors. It would be different for Tunisia to carry one out, than for Norway, because a Tunisian debt audit would have concrete effects on Tunisians if debt were to be cancelled. For Norway it is more symbolic.

Organization: Broader participation necessary

In Ecuador the team consisted of around twenty people, including civil society. This would be a better model for Tunisia, Marsault argues. She does not consider it relevant for Tunisia to simply hire a company to do the audit, as Norway is doing. – We would need some civil society engagement, she says. –An evaluation team would need to be set up to control the entity that would carry out an audit.

Marsault further points to sub-chapter 7 of the Norwegian Terms of Reference for the debt audit, where it is stated that the Government has all the control over the "…distribution, dissemination and publication of the deliverables". –We would not trust the government to have such control over the findings of the audit, Marsault points out. According to Chamki, even the proposal in Parliament for a Tunisian debt audit is too dominated by the State, as there are three Ministries represented in addition to the Parliament and Central Bank.

Methodology: Field work and perspectives from the South

Chamki points out that as a loan is the result of a contract between two parties, both parties are responsible. Naturally, both parties would also need to be included in the debt audit. In the Norwegian proposal, only the creditor is included. –This is insufficient, Chamki concludes. In addition, Chamki insists that the Norwegian audit must include fieldwork and that the Norwegian auditors would need to partner with the borrowing country's civil society, in order for the audit to truly assess the usefulness of the Norwegian loans. He asks:

– When the company who carries out the Norwegian debt audit finds an Egyptian signature on a contract, how can the team verify that this person was in fact authorized to sign such a contract? Perhaps the signatory worked at the Ministry of Finance in a dictatorship? It is not clear how the Norwegian audit will deal with such circumstances.

Illustratively, in Tunisia, only the Parliament can validate a contract. This means that a signature does not have value unless it has passed through the Parliament. This is in the Tunisian constitution. Thus, a simple signature does not necessarily mean authorization! Issues like this must be considered in the Norwegian debt audit. The laws of the debtor countries must be examined. Above all, it is imperative that perspectives from the borrowing country are integrated in the audit for this project not to be paternalistic. Further, social and environmental aspects of loans must be considered for the audit to be complete.

Flaws of the Tunisian debt audit

Chamki is not satisfied with the proposal for a debt audit that is currently being discussed in Tunisia's parliament. Even if it were to be accepted by the majority in parliament, the proposal is not what the CPR promised before the elections, Chamki explains. They had not only promised a debt audit, but also a moratorium on debt payments and debt cancellation. Chamki points out that it is problematic that Tunisia will continue paying its debts while the audit is going on. The natural thing to do would be to impose a moratorium. In addition, in the audit proposal it says that debt will not be cancelled as a result of the debt audit! – This is ridiculous", Chamki asserts, – what is the point of a debt audit if not cancellation of odious debts?

Finally, Chamki is frustrated that the government has not acted more progressively on the debt issue, especially after the resolution from the European Parliament on May 10th 2012, which states that the public external debt of Tunisia is odious. Instead of accepting this, and stopping payments on debts originating from Ben Ali's regime, the government has assured their lenders that they will not repudiate on debts.

Photo: Cathaina Bu

The RAID office in Tunis, Tunisia.

4. Conclusions and Recommendations

Input from Tunisians who are discussing their own debt audit and from civil society and academia around the world (appendix) highlights both strengths and weaknesses in the Norwegian model. In this section general input is discussed and specific recommendations for changes to the Norwegian debt audit are outlined. Look to the appendix for more detailed analysis of the Norwegian model from international perspectives is available in the appendix

SLUG acknowledges that the Norwegian debt audit process is about to start. This report is published only weeks before the deadline for submitting tenders and two months before the contract between the Norwegian government and the tenderer is signed. However, SLUG considers these recommendations so vital that they cannot be overlooked.

The importance of creditor responsibility

First and foremost, after speaking to Tunisians, it is clear that having a creditor carrying out a debt audit is revolutionary and important in itself. As the case of Tunisia illustrates, the pressure from creditors and credit rating agencies on countries looking to carry out debt audits, is severe. Moreover, a creditor is better able to shoulder the costs that an audit might entail. Therefore, Norway setting precedence for other creditors could have groundbreaking effects for debtors.

Furthermore, the input to the Norwegian debt audit presented in this report from both Tunisians and others (see appendix) illustrates concern for the impact of reckless lending on citizens in indebted countries. With debt crises now affecting many major creditors in the US and Europe, there is hope that creditors will take measures to ensure better regulation of lending and borrowing across borders. The Norwegian debt audit can be an important first step towards better regulation.

International finance today is based on the idea that a country must repay its debts no matter what. The Tunisian government's unwillingness to carry out a debt audit is an example of this, as is the Indonesian government's choice to service debt originating from Suharto's purchase of German warships (see input from the International NGO Forum on Indonesian Development in the appendix). On top of this, an imbalance of power prevails between creditor and debtor, where the creditor has the upper hand, as it is the creditor who decides whether the debt should be converted or cancelled. Norway, by taking responsibility for its loans can help shift the balance of power to give creditors a larger part of the responsibility for debt contraction. By and large, a creditor taking such bold action and admitting responsibility is a step towards dealing with debt problems in a more fair and comprehensive way.

Additionally, as the Governor of the Tunisian Central Bank, Chedly Ayari expresses, a large problem for debtor countries wanting to audit their debt is the lack of international support.

Therefore, SLUG recommends that the Norwegian government:

- Extends support to countries wanting to carry out a debt audit.

Separating the audit from debt cancellation

The purpose of the audit – to learn from past mistakes and develop better practices -resonates with the Tunisian context. Although there are actors in Tunisia, such as Jihen Chandoul from Let's Audit Tunisia's Debt (ACET) who clearly sees debt cancellation as the ultimate goal, she considers it necessary to separate the processes. In fact, all the Tunisians we spoke to, except Fathi Chamki from the Rally for an International Development Alternative (RAID), made it clear that if debt cancellation were to be included in the purpose of the debt audit, it would never garner the support needed in order for the work to start.

Among civil society representatives from other countries, however, this separation is contested, as they see debt cancellation as the ultimate goal. Although SLUG believes that illegitimate debts uncovered by the Norwegian debt audit must be cancelled, in the Norwegian context, as in the Tunisian, it seems strategically smart to separate the debt audit from the debt cancellation process. Thereby, cancellation of illegitimate debts will be a battle for phase two.

Indeed, as Kunibert Raffer from the University of Vienna underlines, the fact that the purpose of the Norwegian debt audit is not to cancel debt "should increase its attraction to potential followers wishing to separate auditing from outright cancellation. The remark that an audit per se does not imply in any way the suspicion of incorrect, irresponsible behavior by those responsible for administering official credits for the creditor state, though evident, may prove useful to alleviate unfounded fears of potential followers."

Narrow but feasible scope

The Norwegian debt audit is not directly transferable to the Tunisian context in terms of scope. First and foremost, the multinational institutions will naturally play a much larger role in the Tunisian audit than in the Norwegian audit. Tracing and evaluating Norwegian lending through the international financial institutions (IFIs) is a much more complicated exercise than tracing the money from IFIs and into Tunisia (which is not straightforward either).

Besides, the Norwegian model does not include lending through the Norwegian sovereign wealth fund's investments in government bonds, as pointed out by the European Network for Debt and Development (Eurodad). This narrow scope is unfortunate, as the extent of lending through government bond investments is more than 600 times as much as the current scope of the audit. Nonetheless, an audit of Norwegian investments in government bonds may well be the logical next step in the battle against illegitimate debt and reckless lending.

Notably, the fact that the scope covers all debt that originates from export credits is important at a time when public transfers to Export Credit Agencies are increasing. The unveiling of current practice and any weaknesses there may be, will not only serve as useful lessons for Norway but for all countries with ECAs.

Weaker institutions, broader steering committee

Input from Tunisians and from around the world reveals that the composition of the steering committee responsible for the Norwegian debt audit is not transferable to all contexts. As Mbarek explains, one of the main post-revolution claims from Tunisians is that citizens must be included in national reconciliation processes that the debt audit is a part of. Civil society must therefore be included in the committee. The representatives from civil society organizations and academia in Tunisia echoed this call. However, civil society organizations from European countries and the US (Jubilee USA, Jubilee Debt Campaign UK and Erlassjahr) deem the composition of the committee appropriate.

Perhaps this is an issue of the degree of trust in public institutions in a society. Countries with stronger political institutions are more comfortable with the government being the sole actor in the steering committee. Certainly, SLUG is happy to be on the outside, but with the opportunity to give inputs at relevant stopping points. Many also pointed to the high degree of transparency as a clear strength in the audit. Indeed, the transparent process makes it more acceptable to exclude civil society organizations from the committee, as they are sure to both be heard by, and get reliable information from, the committee members.

It is worth noting that problems may also arise from having a too broad steering committee. It is more difficult for civil society organizations to play a watchdog role if they are included in the process, as was the case with the Ecuadorian audit. For instance, SLUG will be conducting a shadow debt audit parallel to the Norwegian audit, and we will certainly campaign for the cancellation of debts that prove to originate from irresponsible lending. It would be more difficult to play such a radical watchdog role while being in the steering committee, as the example from Ecuador illustrates. Furthermore, as Boyce and Ndikumana (2012) outline, critics of debt audit processes often highlight that it is unfair if the audit commission includes representatives from anti-debt organizations with biased views against lenders. Moreover, these are considerations that each country will need to make when designing its debt audit.

How to assess developmental impacts from a desk?

The comments from Tunisia and elsewhere were close to unanimous: Carrying out a debt audit as a desk study both severely limits the initiative and weakens its transferability. Both Karim Trabelsi from Tunisia's largest union and Wajih Abbassi, Professor of Finance at IHEC Business School of Carthage, point out it is unlikely that odious debt will be uncovered by exclusively looking at contracts signed by Ben Ali and his government. One needs to dig into the projects and the subcontractors in order to uncover the corruption that was taking place during the dictatorship. What's more, civil society organizations from Tunisia and all over the world call for investigations into the effects of Norwegian loans on the people in the debtor countries.

As Professor in economics at the University of Massachusetts, Léonce Ndikumana puts it, while the Norwegian model can be an efficient way of addressing legal principles; "it is unlikely to adequately address the ethical and developmental principles. Given that it is undertaken as a desk study, with no investigation on the ground in debtor countries, the model is unlikely to gather the relevant information to assess."

Examining the guidelines the audit is meant to draw upon reveals that the audit is required to consider the operational, civil, social, cultural, and environmental effects of the project (UN Principle # 5). Additionally, the auditors must explore if the projects are contrary to the economic and social strategy of the recipient country, as required by the OECD's principles for sustainable lending that GIEK is obliged to follow. As the case of Indonesia illustrates (see Fact Box E), this principle was breached by the Norwegian loans to Indonesia.

SLUG therefore recommends that the Norwegian government:

- Ensures that field visits to the relevant debtor countries are conducted as a part of the debt audit process.

This could be done as a parallel task, conducted by another set of experts, as it might otherwise burden the team of three who will be conducting the audit. A solution could surely be found as it is only for debt originating from export credits guaranteed by the Norwegian Guarantee Institute for Export Credits (GIEK), which involve 34 contracts in the seven countries Zimbabwe, Myanmar, Sudan, Somalia, Pakistan, Indonesia and Egypt.

Debt: An issue for both affected parties

Undoubtedly, as a part of the field study, consultations with relevant parties in the debtor countries are necessary. Chamki points out that a loan is the result of a contract between two parties, where both parties are responsible. Naturally, both parties would also need to be included in the debt audit. As Chamki concedes, the Norwegian model would be paternalistic if it only takes the creditor's perspective into consideration. Civil society, affected peoples and parliamentarians, are all suggested as relevant stakeholders.

In order to thoroughly assess UN Principle 5 and the OECD Principles for Sustainable Lending, affected people and relevant stakeholders must be consulted.

SLUG therefore recommends that the Norwegian government:

- Ensures that time is explicitly allocated for consultations with relevant stakeholders in the debtor countries.

Applying the UN Guidelines for responsible lending and borrowing

The Norwegian government's decision to apply the UN Principles for responsible lending and borrowing was applauded by many, while considered too narrow by others. As Nessa Ní Chasaide from Debt and Development Coalition in Ireland puts it, "although the UN Principles are a clear step forward in outlining more explicitly the responsibilities between lenders and borrowers, they are not robust enough to adequately enable judgments on key areas. Nonetheless, Chasaide acknowledges that although the framework may prove too narrow, it will provide a relevant sample research methodology that can be evaluated for future debt auditing practice in other countries."

Perhaps unsurprisingly, Eurodad advocates for the Eurodad Charter for Responsible Finance to be included as a point of reference and a concrete example of stronger guidelines. Although it is true that these are stronger than the UN Principles, the latter may prove to be more transferable. As economist Kunibert Raffer argues, "in order for a debt audit to set precedence internationally, the guidelines applied need to be generally accepted." Therefore, although including the Eurodad guidelines would certainly make the audit stronger, it might also make it less transferable to other countries.

Furthermore, as the launch of the Principles is in itself an important step towards better regulation of lending and borrowing across borders, the Norwegian audit will provide a useful example of how the Principles can be applied in practice. As Raffer puts it, it will "produce insights that contribute to elaborating a more concise, useful and workable definition of the concept of illegitimacy of loans." The debt audit could thereby result in a framework for responsible lending that is internationally relevant.

SLUG therefore recommends that the Norwegian government:

- Demonstrates that the results of the debt audit and the application of the UN Principles can feed in to a framework for responsible lending that is internationally relevant.

A model for others?

This report presents varying perspectives on whether the Norwegian debt audit model can serve as a model for others. While the Debt Observatory and the Citizens Debt Audit Platform in Spain (see appendix) explicitly discourage other countries from following the Norwegian model, others see no reasons for the model to not be transferable. While not directly exportable, it can certainly provide a strong and relevant example for others to draw on, if the recommended changes are incorporated.

Nevertheless, the Norwegian initiative shows that a creditor debt audit can be done. As Tim Jones from Jubilee Debt Campaign UK says, it is already putting pressure on other lenders to do the same. Thus, the audit has the potential to usher a new era in responsible lending and borrowing.

Appendix: Perspectives on the Norwegian model from around the world

In order to include more countries than just Tunisia, SLUG invited civil society organizations and academics from around the world to give their input into which elements of the Norwegian model are transferable to other countries and which are not.

In this chapter you will find comments from Committee for the Abolition of Third World Debt (CADTM) – Pakistan, Debt and Development Coalition Ireland, Debt Observatory / Citizens Debt Audit Platform (Spain), Erlassjahr.de, the European Network for Debt and Development, the International NGO Forum on Indonesian Development, Jubilee Debt Campaign UK, Jubilee Scotland, Jubilee USA, the Jesuit Center for Theological Reflection (Zambia), professor Kunibert Raffer and professor Léonce Ndikumana.

Committee for the Abolition of Third World Debt (CADTM) – Pakistan

By Abdul Khaliq | www.cadtm-pakistan.org

The on-going global financial crisis and the Euro crisis have left little doubt that irresponsible lending and borrowing have severe negative consequences for many countries and their peoples. Public debt has become a mainstream global issue once again. Under such circumstances it is appreciable that Norway has decided to audit its debt.

The important aspect of the promised audit is the disconnection with conventional approaches of debt-to-GDP ratios that are generally used to assess debt-burdened countries. In Norway's view, consideration should be taken of how the debt is accumulated in the first place and the conditions that were set in the contract. This approach is good, and close to our position.

However, the approach being used for this audit does not match the purpose of the audit. On the contrary, there seems incongruity between the two. It would be better if the Norwegian government included the "cancellation of illegitimate, odious and illegal debts, if revealed" as a part of the purpose of the audit. The principle of co-responsibility as a creditor must be recognized by the cancellation of dirty debts; for instance in the case of Indonesia.

Another aspect is that all loan contracts of Norway are not subject to the audit. The scope of the audit is limited to only those debts that originate from export credits guaranteed by the Norwegian Export Credit Agency (Giek). Here comes another hiccup; loans extended to dictatorial and despotic regimes will remain outside the scope of this audit. We don't agree with this position. The debt audit should comprehensive and must lead to debt justice in a real sense.

To employ the UNCTAD Principles for Responsible Lending and Borrowing in the audit is good step. However, we have yet to see how these Principles will be applied in practice, and if they are sufficient for uncovering dirty debts.

Debt and Development Coalition Ireland

By Nessa Ní Chasaide | www.debtireland.org

We welcome the initiative of the Norwegian Government to carry out a debt audit. It is particularly welcome that a creditor country is introducing this practice. Not only is the emphasis on the importance of creditor responsibility and fairness a crucial step forward in the current global financial climate, but the evaluation framework, although it may prove too narrow, will provide a relevant sample research methodology that can be evaluated for future debt auditing practice in other countries.

Although the UN Principles are a clear step forward in outlining more explicitly the responsibilities between lenders and borrowers, they are not robust enough to adequately enable judgments on key areas, such as the full detail of the lending decision-making process. For example, while the Principles emphasize the importance of due diligence by lenders and borrowers regarding the likelihood of a loan being re-paid, recent (and painful) experience in Ireland demonstrates that allocating responsibility in this area is deeply contested, and requires making political judgments. We hope that scope for forming opinions in this way will be available to the researchers carrying out the audit, and crucially, that the audit report will lead to a more political and justice-centered level of engagement by the Government of Norway in evaluating whether the outstanding loans in question should be repaid.

Furthermore, the UN Principles strongly reference the responsibilities of lenders and borrowers in assessing the financial, operational, civil, social, cultural, and environmental implications of lending projects. However, the Norwegian audit appears largely based on a desk review of the loan contracts, and the developmental impact 'on the ground' does not appear to feature. This raises the question of how evaluating the developmental impacts of the loans will be linked to the audit process. And more critically, how the people impacted by the loans will be enabled to share their views of the fairness, or otherwise, of the loans.

Debt Observatory / Citizens Debt Audit Platform (Spain)

By Iolanda Fresnillo and Gemma Tarafa | www.odg.cat / www.auditoriaciudadana.net

Having a creditor country committed to undertake a debt audit is an important step towards dealing with debt problems in a more fair and comprehensive way than what existing mechanisms allow. Such an approach should take into consideration, as the Norwegian Government recognizes, "how the debt came about in the first place and the conditions that were set". Thereby, a debt audit should help us determine whether debt is legitimate or illegitimate.

One of the first things that got our attention from the Norwegian debt audit proposal is that it is not intended to cancel debt. However, we understand that if debts are found to be illegitimate during the audit process, the Norwegian government should recognize its co-responsibility and cancel the relevant debts.

The second issue that got our attention is the choice of who will be carrying out the audit. We understand that debt audits should be participatory processes, including not only "inputs" from Norwegian NGOs, but a broader participation of stakeholders, including civil society organizations (CSOs) from the debtor countries, experts and academics.

Finally, the proposal from the Norwegian government limits the evaluation to a desk study that looks at how Norwegian lending complies with the UN principles on Responsible Lending and GIEK's procedures. We believe this will provide a very limited analysis of the illegitimacy of debts as the impact of loans on the ground is not considered. We therefore recommend a much more comprehensive and integral debt audit, which evaluates the social, environmental, gender, cultural and economic impacts of Norwegian lending, including field case studies with the participation of impoverished countries' CSOs.

As CSOs we call for much more ambitious, participatory and comprehensive debt audit processes than what can be carried out in Norway by a three person team, in three months. For all the previous, we do not recommend the Norwegian proposal as a model to be followed by others.

Erlassjahr.de (Germany)

By Jürgen Kaiser

The proposal looks technically and substantially sound to me. I can see no reason, why it should not be transferable *ceteris paribus* to other governments, which intend to have an audit. I would like to stress, that again it is way beyond anything that is being discussed in terms of transparency and responsibility in my own country.

What seems missing is that the potential existence of questionable or illegitimate claims implies that not only lending policy has been deficient, but also that oversight and auditing have not worked as they should have. From the outset the project should therefore include the question, where and why control functions have not worked, and where they should therefore be improved, altered or freshly created. "Oversight" on the one hand refers to existing constitutional mechanisms and procedures, but may on the other go beyond and relate f.i. to issues of transparency. *Will the audit in that sense be linked to any parliamentary process?*

Maybe it is inevitable that a government gives some praise to past efforts. However considering whether the Heavily Indebted Poor Country Initiative (HIPC) has been a success or not (ToR pt.1.1), is irrelevant for both, the audit and a new mechanism. It falls back behind the recognition of debt as a structural element of global capitalism, which requires a structural solution, i.e. a permanent and standing mechanism, as the first goal of Norway's debt policy (Part 1.1) rightly points out.

The European Network for Debt and Development

eurodad.org

We would like to congratulate the Norwegian Government and Norwegian NGOs for this bold step towards debt justice. It is encouraging and commendable that the Norwegian government recognizes the need to further discuss responsible lending and illegitimate debt, while recognizing them as controversial issues, and we hope the Norwegian commitment and the debt audit will encourage other governments to engage in the debate and carry out debt audits. Eurodad appreciates this initiative and believes it will set an important example in demonstrating that carrying out a creditor debt audit on normative grounds is legally, technically and politically possible. Any debtor or creditor country that may eventually follow Norway's example will of course have to find their own solutions, however we believe this audit will provide important lessons.

We have the following recommendations:

1. It is commendable that Norway takes a step towards implementing and further developing the UNCTAD guidelines. The Eurodad Responsible Finance Charter should be used as a point of reference and a concrete example of stronger guidelines (55).
2. While it is right that using today's glasses when assessing the issuance of guarantees from the 1980s and 1990s is unfair, it is important to bear in mind that the audit is about illegitimacy, not illegality. If creditors' guidelines were not strong enough in the past, they need to take the consequences of that. Hence, it is crucial that current debt claims are evaluated based on the standards we want to follow today.
3. It is crucial that civil society of the debtor countries is consulted. In addition, core civil society stakeholders, particularly in the South, should also be included. Time should be explicitly allocated for consultation with external stakeholders.
4. To be consistent in its debt and responsible lending policies, Norway should look into the Government Petroleum Fund which is where Norway is a big creditor, including to countries where the people, following the Arab Spring, have inherited the debts of their former dictators.

The International NGO Forum on Indonesian Development

By Don K. Marut, former director of INFID | http://donmarut.blogspot.no

The initiative taken by the Norwegian government is the best way to solve debt problems and to revise future lending strategies. Both creditors and debtors should be responsible for debts. Aid and loan flows to developing countries increased significantly in the last decades, which raises a fundamental question: *Do these aid flows lead to development in the recipient countries?* Unfortunately, instead of alleviating poverty, many recipient countries are instead heavily burdened with debts.

Research conducted by INFID shows that aid does not always serve development purposes in Indonesia. Firstly, attracting foreign aid creates side jobs for government officials. Almost all ministries have project offices to implement foreign aid-supported projects. Since the projects provide high incomes, the officials often pay more attention to the projects than to their other responsibilities. Secondly, debt creates jobs for officials in foreign aid agencies. In fact, we have found that project proposals are often made by foreign aid consultants. In many cases the projects are not in line with the government's development goals. Thus, accumulating debt is not done mainly for development purposes, but for fulfilling the desires of wealth accumulation of the government officials and foreign aid workers. *Should the people be responsible for repaying such debts?*

The Indonesian debts to Norway can be considered fraud. This includes a sea wave power plant, technologies for the geophysics and meteorological institutes. Both creditors and debtors are responsible for the negligence since the outset of these projects. Indonesia also has debt from other countries that did not benefit Indonesians. Some are only swamping wrecks. The poor of Indonesia have to forego their opportunity to get out of poverty in order to repay this debt.

This initiative could be a model for Indonesia. It could push the government to take a similar initiative, and to encourage Indonesia's creditors to follow Norway's example.

The International NGO Forum on Indonesian Development (Khoirun)

By Siti Khoirun Nikmah

Based on our experience in Indonesia, illegitimate debt is politically very sensitive. For example, although the German government has signaled that if Indonesia asks for it, they will cancel illegitimate debts originating from warship loans, some politicians from one of the big parties in Indonesia reject this option.

Notably, a debt audit has also been adopted by the Indonesian government. The Supreme Board of Audit has already audited programs funded by debt. This institution communicates with academia and civil society, including INFID, to get input on debt issues. We have been focusing on making this process as transparent as possible.

What is missing in the Norwegian debt audit?

In the Terms of Reference (ToR) for the Norwegian debt audit, it is stated that creditors and debtors both have responsibilities: Debtors are responsible for practicing good public debt management and the creditor is responsible for being sensitive to needs and risks in the debtor country. Although I agree with this, such a narrow scope is not sufficient. A debt audit needs to be based not only on management, but also on the impact of the loans, especially on the people. Therefore, the Norwegian debt audit also requires input from the people in the debtor countries.

Furthermore, it is unfortunate that the Norwegian debt audit does not take political transitions into account. In the 90s we had an authoritarian government in Indonesia, but today it is not so. The question is how do we incorporate this political transition in a debt audit? In Indonesia, the government is trying to deny the fact that the government of the 90s was authoritarian, and they audit projects without taking the character of the government into account. I hope that the Norwegian debt audit will be more sensitive to political transitions.

Jubilee Debt Campaign UK

By Tim Jones | www.jubileedebtcampaign.org.uk

Norway is setting an example to other countries by holding the first ever creditor's debt audit. Over recent years, $130 billion of debt has been cancelled through the Heavily Indebted Poor Countries initiative. But this IMF and World Bank dominated process has never investigated fundamental questions about debt: *Who benefited from the loans? Should people today pay the debts they had little or no say in being contracted? How can unjust and unpayable debts be prevented?*

A debt audit is a way of addressing these questions. For it to do so it needs to be as transparent and inclusive as possible. The outcomes of the audit will hopefully include:

1. Norwegian lending becoming more responsible and accountable in both Norway and borrower countries, setting an example for other lenders
2. The righting of past wrongs through the cancellation of any unjust debt
3. Increased ability for civil society and parliamentarians in borrower countries to hold their governments to account

For this to happen, the Norwegian audit will need to engage with civil society and parliamentarians in borrower countries, to get a full range of views on the impact of past loans, and to provide suggestions for the future.

The Norwegian audit is already putting pressure on other lenders to do the same. One of the parties in the UK government, the Liberal Democrats, has a policy to audit and cancel unjust debts. Since being in government they have failed to implement this policy. But in November 2012 the UK government for the first time revealed information on the origin of debts owed to the UK, for example showing that three-quarters of Indonesia's debt comes from arms sales to the dictator General Suharto.

By showing a way to hold a creditor audit, Norway is setting an example and providing a guide which can hopefully be built on by the UK and other lenders.

Jubilee Scotland

By Alys Mumford | www.jubileescotland.org.uk

In general this document will be very useful for our work in Scotland – while we are not yet at the stage of being able to put a tender out for a debt audit, the Norwegian tender will allow us to demonstrate a model that Scotland could follow in the future.

Norway is far more advanced than Scotland (and certainly the UK as a whole) in having guidelines to reference in this document, for example the debt relief action plan. So at the moment the document is not directly transferable, but certain sections (particularly the terms of reference and the methodology) will just need tweaking to make relevant to Scotland. This document would serve as an incredibly helpful template for us to use.

The emphasis on the purpose not being to cancel debt is interesting. In a Scottish context, the main motivation behind a debt audit for civil society organizations has always been to cancel any illegitimate debt revealed in the audit. In Scotland, however, we have much more reason to believe that UK Export Finance has acted irresponsibly.

Given the normative rationale for the debt audit, it is not particularly clear what form of recommendation is expected from the audit, especially given the brief explanation of the secondary objective under section 2. Furthermore, three months seems to be a very tight turnaround – but I imagine it's easier to get hold of the information in Norway than in the UK!

Would SLUG be involved with the steering committee? In Scotland I think Jubilee Scotland would be more involved in the audit, but again this is perhaps down to the fact that Norway has better infrastructure in terms of existing debt policies and transparent procurement processes.

Jubilee USA Network

By Eric LeCompte | www.jubileeusa.org

Jubilee USA Network applauds Norway for setting the precedent as the first country to conduct an official debt audit of debts owed by developing countries. This will expose the origins and use of past loans and provide evidence of odious and unjust debt. Jubilee USA and our supporters have been calling for debt audits as a fair and just way to see if loans are odious or illegitimate for years. We support the UN Principles for responsible lending and borrowing and have been working towards legislation that would reflect that here in the US as well.

We agree that the discussion on external debt should be about creditor responsibility and fairness, not just about how much a country can handle repaying. We also strongly support the efforts to identify illegitimate debt before a loan is made, as that is an area we have been working closely on with the US administration. Preventing odious debt obligations in the first place is a way to stop the cycle of debt and protect citizens from illegitimate regimes.

Gathering input from NGOs at various points throughout the process is a valuable tool, as NGOs can contribute important knowledge and experience from within their home countries and the various developing countries in which they work. Making the executive summary accessible to non-technical readers by limiting acronyms, footnotes, and jargon is a welcomed necessity that will allow others to fully understand the process and spread the ideas and movement further. Conducting this audit will increase transparency and is an exciting step forward, not only for Norway, but also for the world.

Jesuit Center for Theological Reflection (Zambia)

By Geoffrey Chongo | www.jctr.org.zm

The Norwegian approach to debt management is relevant to other countries, including Zambia. The most important elements of the audit are: 1) Setting precedence – if all lender countries were to conduct a debt audit, it may lead to cancellation of many illegitimate debts and bring about more responsible lending, and 2) The use of external auditors is particularly important for the sake of transparency. Since Norway is the creditor in this case, one cannot trust it to conduct its own internal audit. Furthermore, the level of transparency in contracting the auditor is particularly commendable.

When it comes to weaknesses, the declaration that the purpose of the audit is "not to cancel debt" on page 11 may render this exercise academic. If certain debts are found to be illegitimate at the end of the exercise, they should be cancelled if the model is to be taken seriously, and for it to be interesting for others to adopt.

University of Massachusetts, Amherst

By Léonce Ndikumana, Andrew Glyn Professor of Economics at the University of Massachusetts, Amherst | www.umass.edu/economics/ndikumana.html

Norway has once again demonstrated its pioneering leadership in development policy. The Norwegian debt audit is a history-making innovation in development financing, which ushers a new era of transparency and accountability in sovereign lending and borrowing on the donor's side. This landmark model should be emulated by any donor and all donors who are genuinely committed to promoting economic development in general and aid effectiveness in particular.

National debt audits are expected to shed light on three important sets of principles: 1: *Legal principles*: conformity of loan procedures and conditions to the laws of the borrowing country, the laws of the lending governments or institution, and international law. 2: *Equity and ethical principles*: conformity with responsible lending rules, including due diligence and monitoring of the use of the loan proceeds; absence of undue coercion on the borrower; consent of the people, i.e., through appropriate delegation mechanisms, such as Parliament's approval. 3: *Developmental principles*: whether loans were utilized to finance bona fide development programs.

In light of this, the Norwegian model should be extended to cover all forms of loans to governments in developing countries and to address all the three sets of principles described above. As it is now, the Norwegian model addresses the legal principles, but it is unlikely to adequately address the ethical and developmental principles. Given that it is undertaken as a desk study, with no investigation on the ground in debtor countries, the model is unlikely to gather the relevant information to assess:[1] whether the laws and procedures in the borrowing countries were followed properly;[2] whether the representative bodies such as Parliament were properly consulted;[3] whether the loans were used for bona fide development purposes, i.e., whether they financed programs that benefited the people of the borrowing country. In this respect, although the model is a watershed in development financing, it should be extended in its scope and implementation to assess all three aspects of debt audit.

University of Vienna

By Kunibert Raffer, Associate Professor at the Department of Economics, University of Vienna | homepage.univie.ac.at/kunibert.raffer

The debt audit planned by the Norwegian government is a laudable and necessary initiative, a pioneering change in the relation between sovereign creditors and debtors. The first audit of its own debt claims ever done by a creditor country; it can be expected to set new and better standards of best practice for other official creditors as well. In addition, it could provide helpful information to debtor nations on how one should implement audits. As Ecuador's way of auditing suggests, this is definitely needed. Naturally, country specific details, such as reference to Norwegian laws, would have to be adapted, but the basic framework is transferable to other countries without problems.

Meticulously elaborated down to details, Norway's approach can serve as a good framework for other countries. The clarification that its purpose is "not to cancel debt" should increase its attraction to potential followers wishing to separate auditing from outright cancellation. The remark that an audit per se does not imply in any way the suspicion of incorrect, irresponsible behavior by those responsible for administering official credits for the creditor state, though evident, may prove useful to alleviate unfounded fears of potential followers.

The document contains outstanding, commendable features. These are the great transparency of the procedure – public access to information, the intention to gather inputs from NGOs – as well as the declared purpose to give feedback to UNCTAD's new Guidelines on Responsible Lending and Borrowing. Last but not least, the results of this audit may – as expected by the Norwegian government –produce insights that contribute to elaborating a more concise, useful and workable definition of the concept of illegitimacy of loans.

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SLUG
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The Norwegian Coalition for Debt Cancellation (SLUG) is an umbrella organization with over 40 affiliated Norwegian organisations. Working with our domestic and global partners, we gather information on debt related problems as well as the mechanisms that cause them. We work to illuminate these issues, place them on the political agenda and exert pressure on decision makers to address them.

For more information on SLUGs work, visit www.slettgjelda.no