

DEBT AUDITING:

The alternative to the crisis

Belgium Senate

November 2010

PART I

Presentation of Citizen Debt Auditing - Brasil

Belgic Senate

November 2010

Auditoria
Cidadã da Dívida



CITIZEN DEBT AUDIT

BRASIL

- **Citizens' initiative from the assessment conducted in 2000, with more than 6 million votes**
- **Pressure for the realization of the Official Debt Audit, required by the 1988 Federal Constitution, but never implemented**

CITIZEN DEBT AUDITING - BRAZIL

- **KEY INITIATIVES:**

I - Historic Debt Rescue: Studies, Documents, Congress Reports

II - Support for Current Events

Analysis of National Budget and fight against the privilege of debt

III - Compilation of Legal Arguments

IV – Main Political Results

CAIC in Ecuador

CPI in Brazilian Parliament

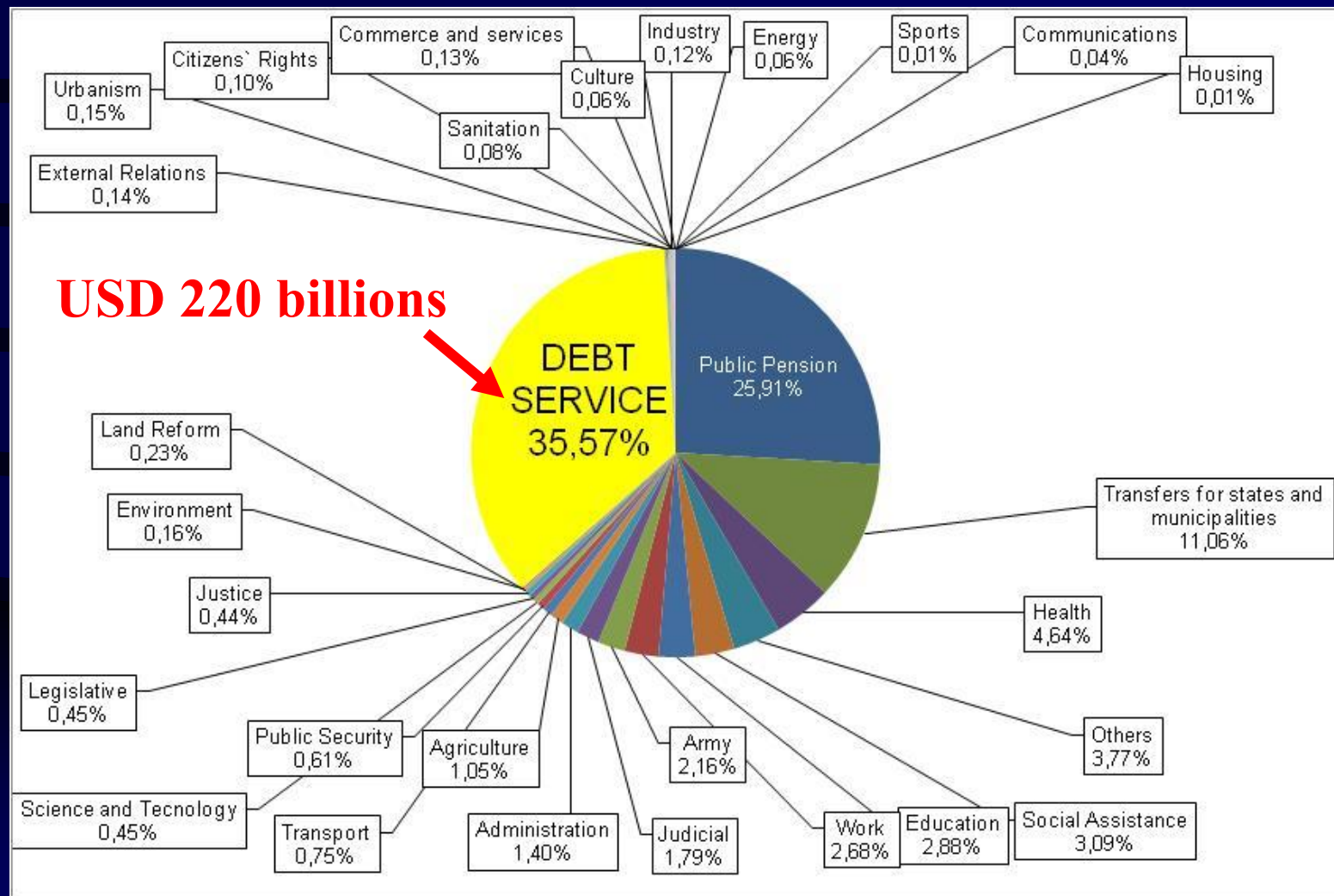
V – National Mobilization linking organizations or workers, students and other popular associations

VI - International Connection: Countries and Organizations LATINDADD, CADTM, JS, UNCTAD

VI I- Popular Publications, participation on national and international events, book, video, studies, website: **www.divida-auditoriacidada.org.br**

Debt Payments: Highest expense of the Federal Budget

Brazilian Federal Budget – 2009



Source: SIAFI. - Not includes the refinancing of the principal, made by the emission of new debt bonds.

Elaboration: Auditoria Cidadã da Dívida – www.divida-auditoriacidada.org.br

CITIZEN DEBT AUDITING - BRAZIL

CHALLENGES:

- Difficulties due to the continuous speech (from government and press), since 2005, that “*the Brazilian Debt is not a problem*”, because Lula paid IMF, considered the symbol of debt.
- Brazilian Internal Debt is over R\$ 2.3 trillions (over US\$ 1.3 trillion), the External Debt is over US\$ 300 billion, and the service of the debt took 36% of National Budget in 2009. If considered the issue of new debt to pay amortizations, the debt took 48% of National Budget in 2009.

DEBT IS THE MAIN BRAZILIAN PROBLEM

- 2011 - New government - Announcements about new pension reforms, reduction of social expenses . No question on debts payments besides the many indications of illegality and illegitimacy founded by the CPI – Commission of Investigation of Debt in Brazilian Parliament .

PART II

DEBT AUDITING

**Human Right internationally
recognized violate in Belgium?**

Belgic Senate
November 2010

DEBT AUDIT

- **Historical experience – Brasil 1931 Getúlio Vargas**
 - **Only 40% of the debt had document - contract**
- **ECUADOR**
 - CAIC – Commission for Integral Debt Audit**
 - Decree n° 472/2007**
 - **Reduction of 70% of external debt in bonds**
- **BRASIL**
 - Senate Commission 1987**
 - Congress Commission 1989**
 - CPI – Parliament Commission 2009/2010**
 - **Investigation sent to Prosecutor**

CPI – PUBLIC DEBT

Commission created by the Brazilian Parliament to investigate the public debt of the Union, states and municipalities, interest payments, the beneficiaries of these payments and its dramatic impact on social policies and sustainable development in the country.



Integral Auditing Definition – Decree N° 472

Art. 2 - Integral Auditing is:

“oversight actions aimed at reviewing and evaluating the contracting process and / or renegotiation of public debt, the source and destination of resources, and implementation of programs and projects to be financed with internal and external debt, in order to determine its legitimacy, legality, transparency, quality, effectiveness and efficiency, considering the legal and financial aspects, the economic, social, gender, regional, ecological and nationalities and peoples”

THE RIGHT TO ACCESS TRUE INFORMATION

THE TRUE ROLE OF PUBLIC DEBT

? Instrument to Finance the Public expenses?

or

? Instrument of Financial Power that utilizes the debt as a mechanism of transference of public resources to the financial private sector ?

What did the CPI investigation find?

**Findings of the CAIC (Ecuador) and CPI
(Brazil) show the same story that submitted all
Latin American countries**

CAI C - ECUADOR



CPI - BRASIL



**THE SAME HISTORY OF
THE DEBT**

CPI – PUBLIC DEBT - BRAZIL

- **Period: 1970 - 2009**
- **External and Internal Debt. Social impacts.**
- **Research of Previous Commissions in Brazilian Congress. Investigation based on documents and official answers to the requirements of information from Central Bank, Ministry of Finance and others authorities.**

CPI - Brasil:

RELEVANT PARTICIPATION OF PRIVATE BANKS' DEBT

70: Odious Debt

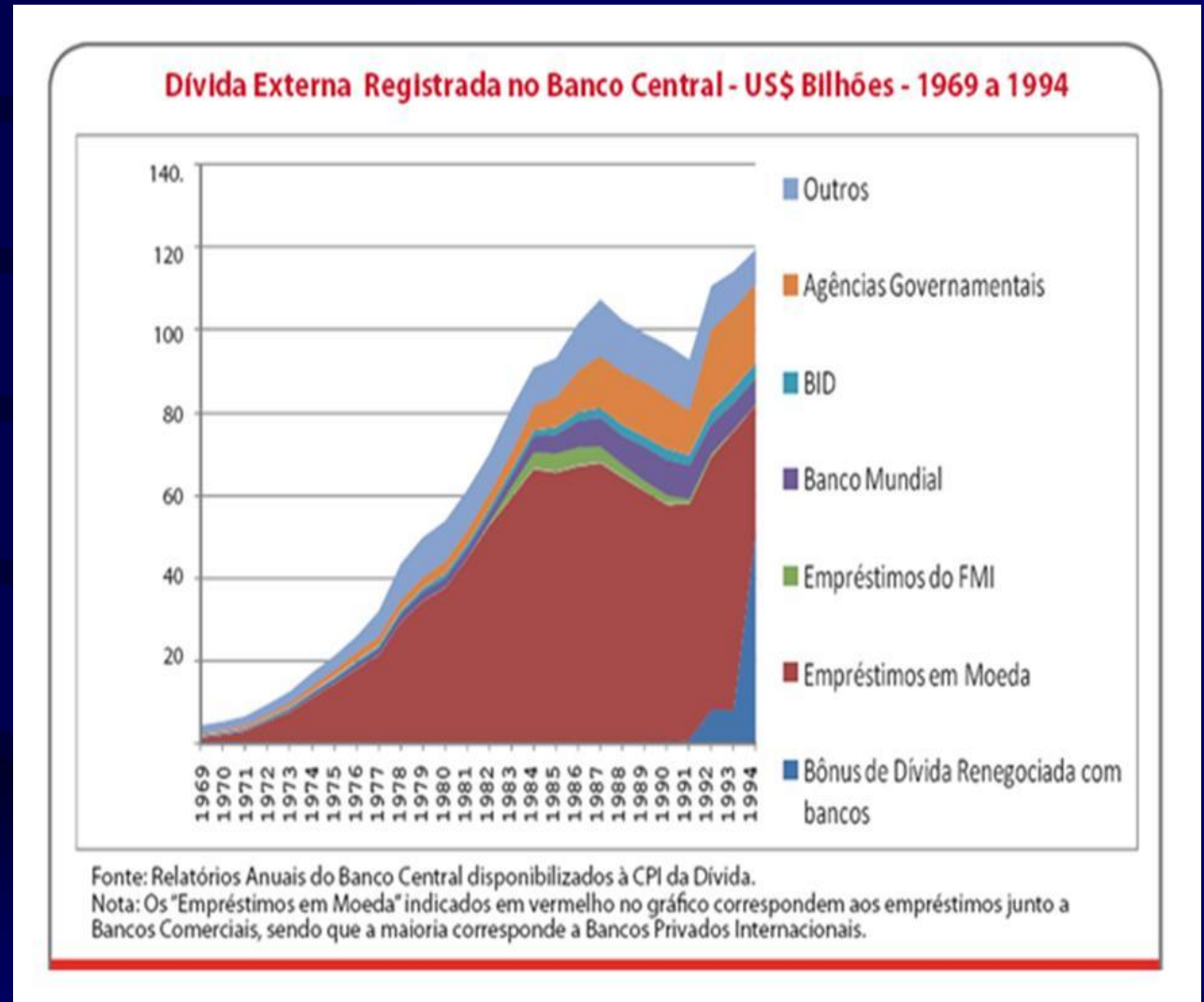
80: Effects of interest
rates elevation

90: Brady Plan

2000: Global Bonds

TRANSFORMATIONS IN INTERNAL DEBT

External Debt - USD billion



CAIC-Ecuador:

RELEVANT PARTICIPATION OF PRIVATE BANKS' DEBT

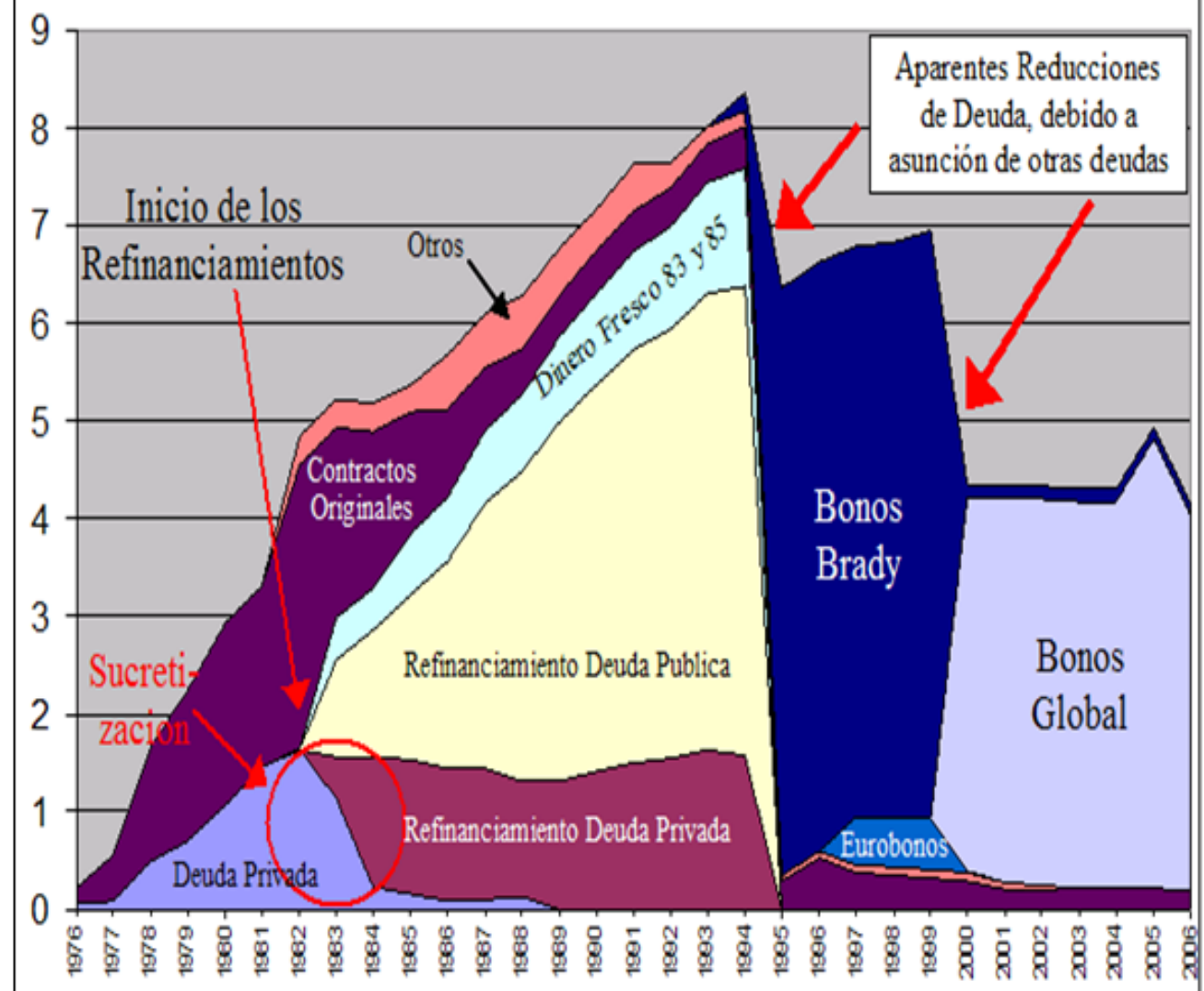
70: Odious Debt

80: Effects of interest
rates elevation

90: Brady Plan

2000: Global Bonds

External Debt - Ecuador – USD billion



Fuente: Estadísticas del Banco Central del Ecuador Elaboración:
CAIC/SCDC/ Rodrigo Ávila – Auditoria Ciudadana de la deuda de Brasil

CPI – What did the investigation find?

Decade: 70's

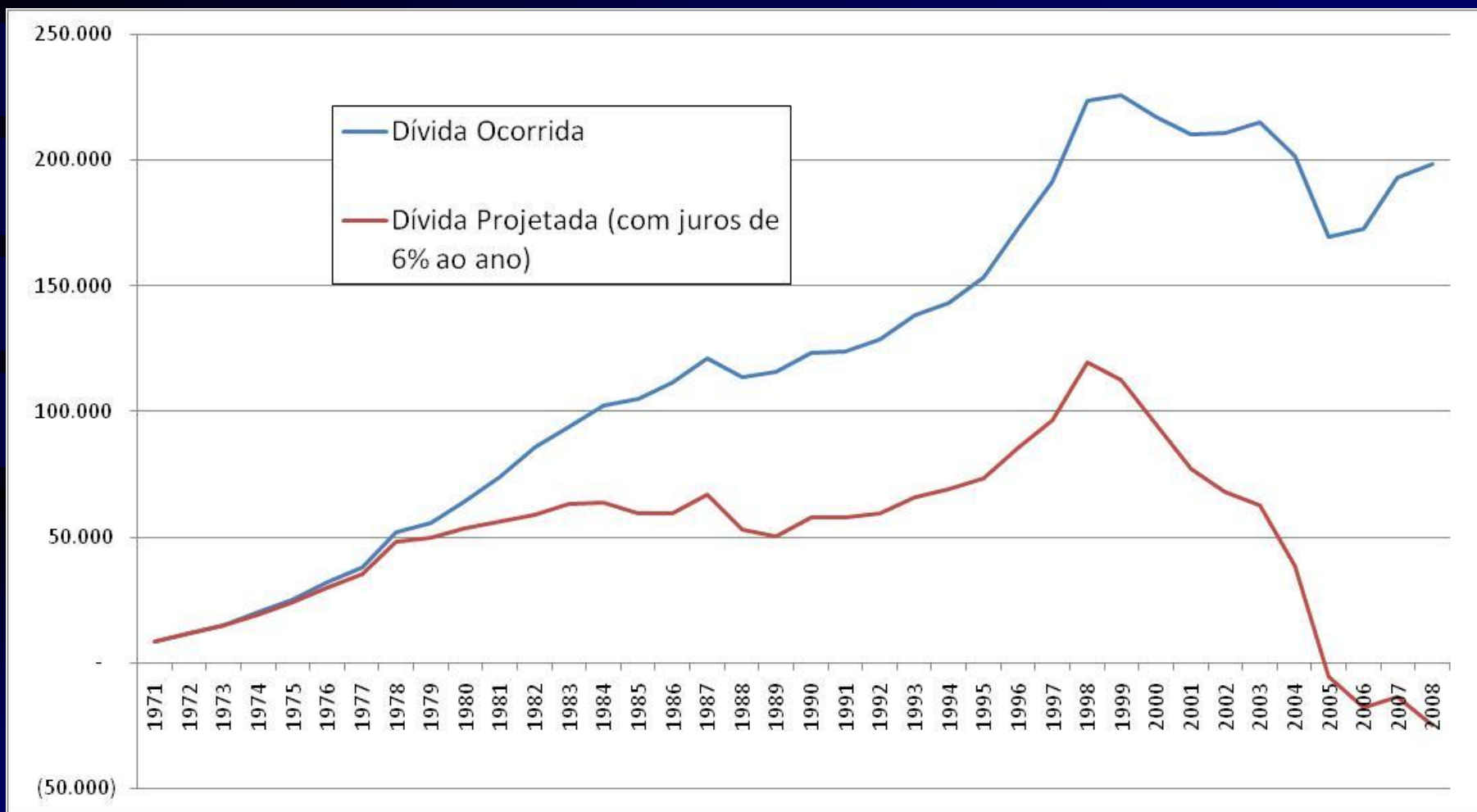
- Remarkable increase of External Debt in almost every country of the “Third World”
- Remarkable excessive liquidity due to large amount of dollars (end of the fixed dollar-gold parity) and petroleum crises

**Role of Debt: Indebtness absorbed the excessive liquidity,
benefiting the private international banks**

Impact of the interest rate increase by FED-USA

Brazilian External Debt:

Real (Occurred) and Projected (with constant interest rates of 6% a.a.)



Source: Central Bank. - Elaboration: Auditoria Cidadã da Dívida – www.divida.auditoriacidada.org.br

CAIC - Ecuador:

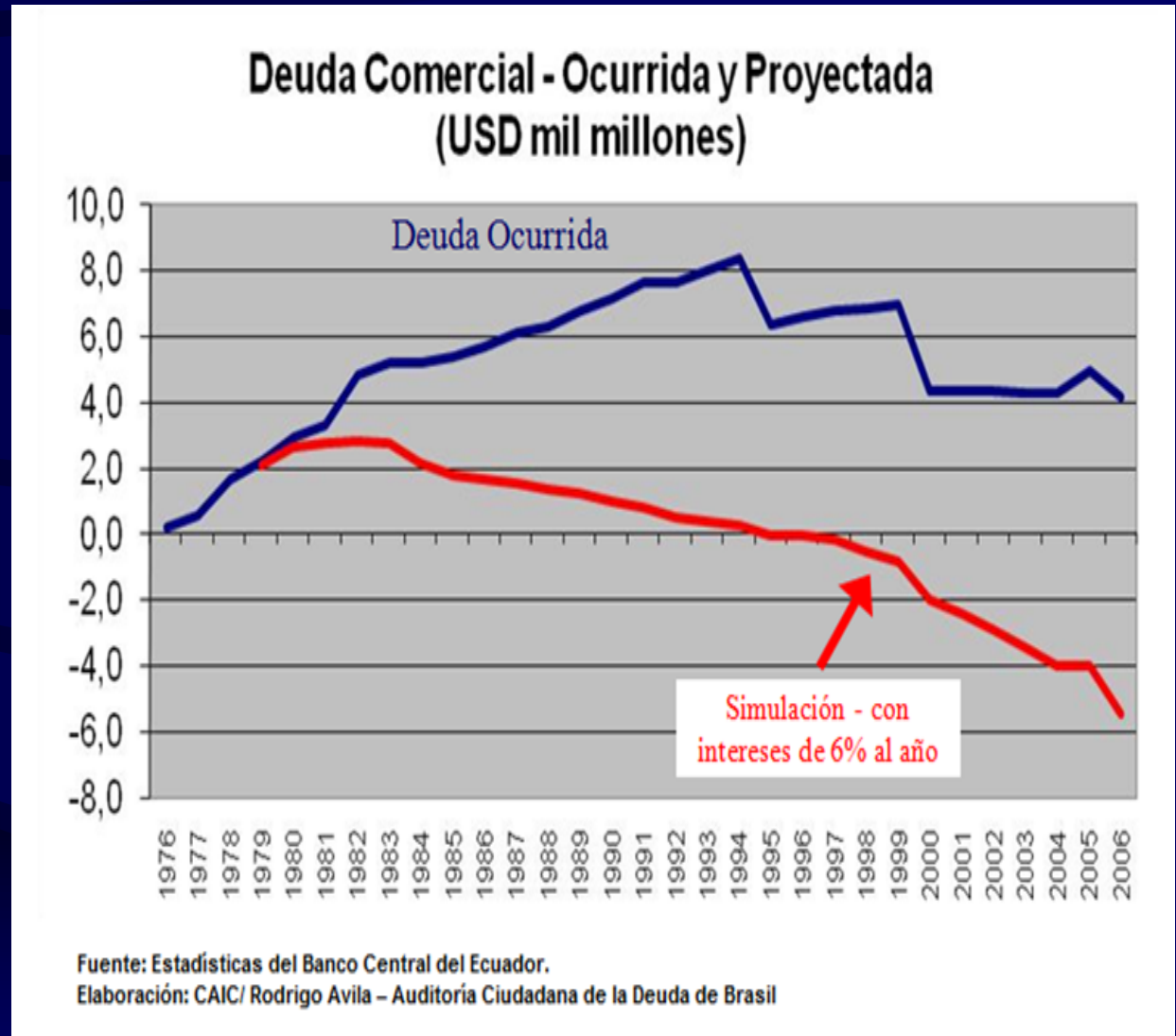
**Impact of the
interest rate increase
by FED-USA**

**If the interest rates
where kept in 6%
per year:
ECUADOR IS
CREDITOR**

Need reparation:

(*Rebus sic stantibus*)

**Art. 62 of
Viena's Convention**



CPI – What did the investigation find?

Decade: 80's

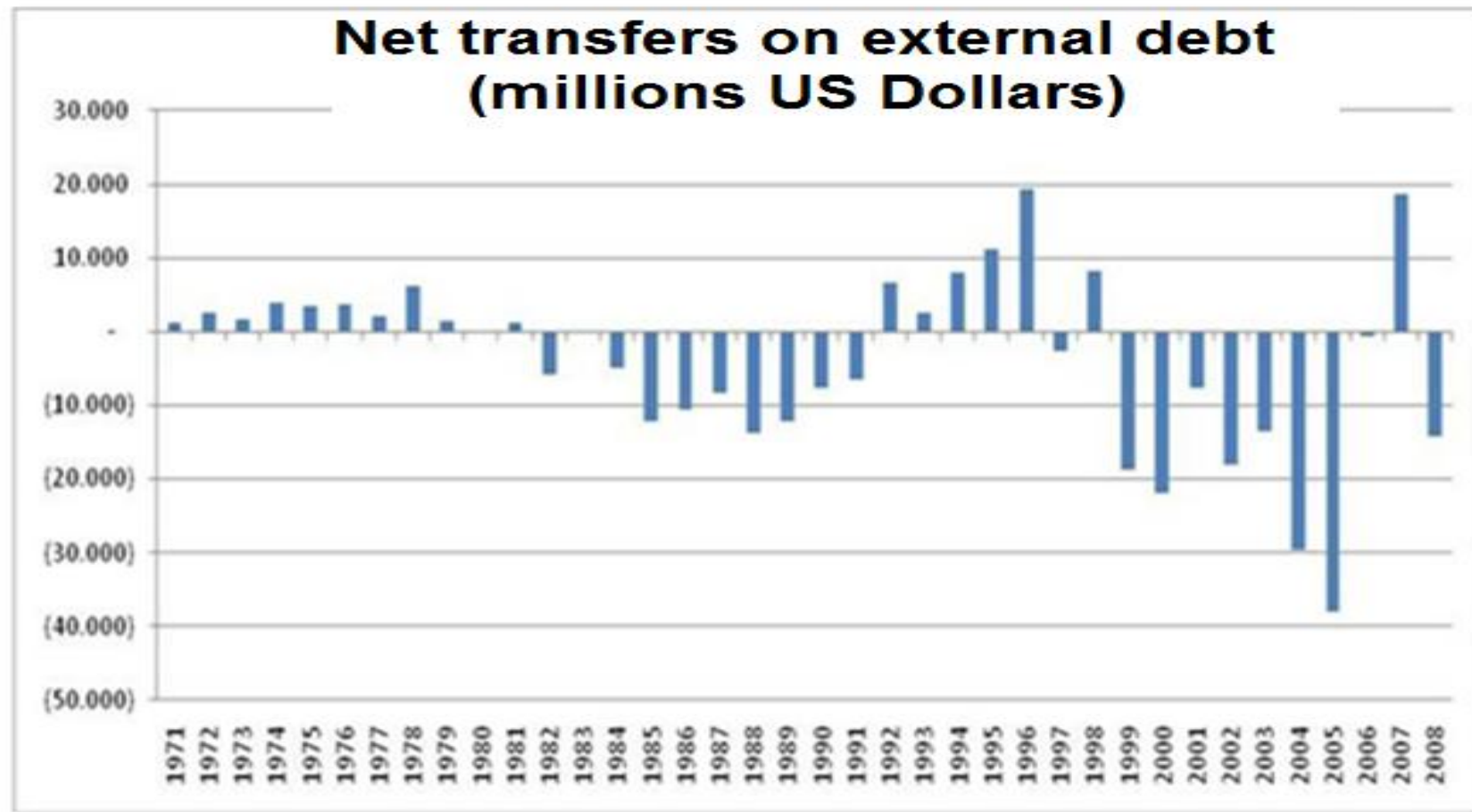
- Extraordinary elevation of interest rate by private banks in USA and London (Prime and Libor)
- Increase of the External Debt of the “Third World” = Large Crisis
- Intervention of IMF and its recommendations
- Successive obscure renegotiations and conversion of private and public debts in to Central Bank. Net capital flows to the North.

Role: Debt increase without correspondence in benefits or new money.

Crisis opened the way to IMF intervention in internal subjects

CPI – What did the investigation find?

NEGATIVE NET FLOWS of USD 144 Billion from 1971 – 2008



Fonte: Dados do Banco Central - Nota Técnica DEPEC – 2009/248.

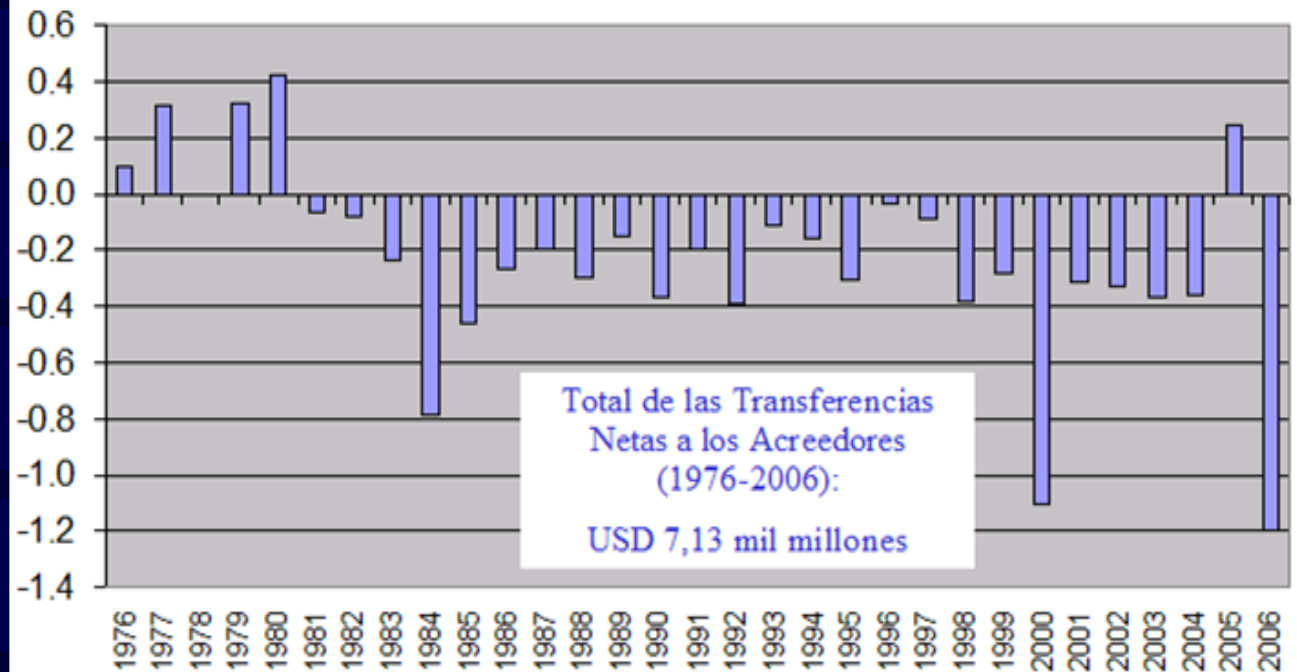
CAIC - Ecuador:

**NEGATIVE NET
FLOWS OF USD
7,13 BILLION from
1976 – 2006**

**The debt with
private banks has
never being a
financing resource.**

LA SANGRIA DE LA DEUDA COMERCIAL

Grafico 1 - Deuda Externa Comercial - Transferencias Netas
(Miles de millones de USD)



Fuente: Estadísticas del Banco Central del Ecuador detalladas en las tabla 1 y 2 del anexo estadístico I

Nota 1: No hay datos sobre 1978.

Nota 2: Las transferencias netas son los préstamos menos las amortizaciones y intereses

Autor: Rodrigo Avila – Auditoría Ciudadana de la deuda de Brasil

CPI – What did the investigation find?

Decade: 90's

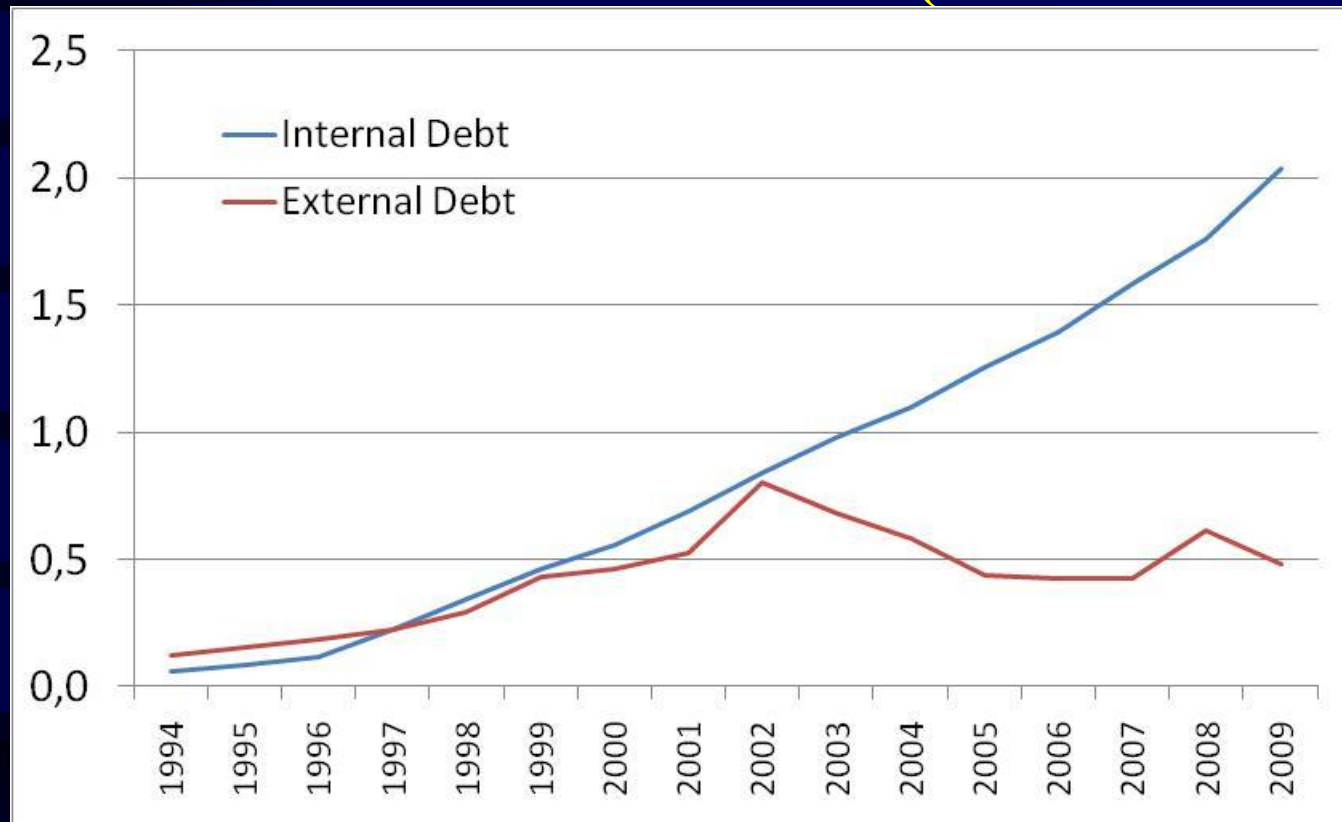
- Suspect of prescription of external commercial debt
- Brady Plan - Conversion of contractual debt into bonds, neglecting the possibility of repurchase the debt in secondary market
- Utilization of Brady bonds in the Privatization process
- Free capital flows combined to high internal interest rates =

INTERNAL DEBT: The new face of EXTERNAL DEBT

Role of Debt: Debt increase without correspondence in benefits or new money. Change of the debt face: EXTERNAL  INTERNAL

Conversion of External debt in Internal Debt

Brazilian Debt - Trillions of “real” (brazilian currency)



Source: Central Bank. Elaboration: Citizen Debt Auditing. Not includes the internal debt bonds in Central Bank.

**INTEREST RATES OF THE INTERNAL DEBT: MORE THAN 10%
IN A CURRENCY THAT VALUATE 34% (AGAINST DOLLAR) SINCE 2005
36% OF THE FEDERAL BUDGET TO PAY THE SERVICE OF DEBT IN 2009**

CPI – What did the investigation find?

Decade: 2000

- Remarkable excessive liquidity due to large amount of dollars (injection of trillions of dollars to save private banks) and financial crisis.
- Increase of Internal Debt due to absorption of dollars that are destined to increase the international reserves
- Non-sense: Central bank accept great amount of dollars – that are devaluating - and exchange them by internal debt bonds, that pay the highest interest rates, assuming a debt in brazilian currency.
- HIGH LOSSES TO CENTRAL BANK (R\$ 147 billion in 2009)
- Role of Debt: The new face of the excessive liquidity: Increase of INTERNAL DEBT in the Third World

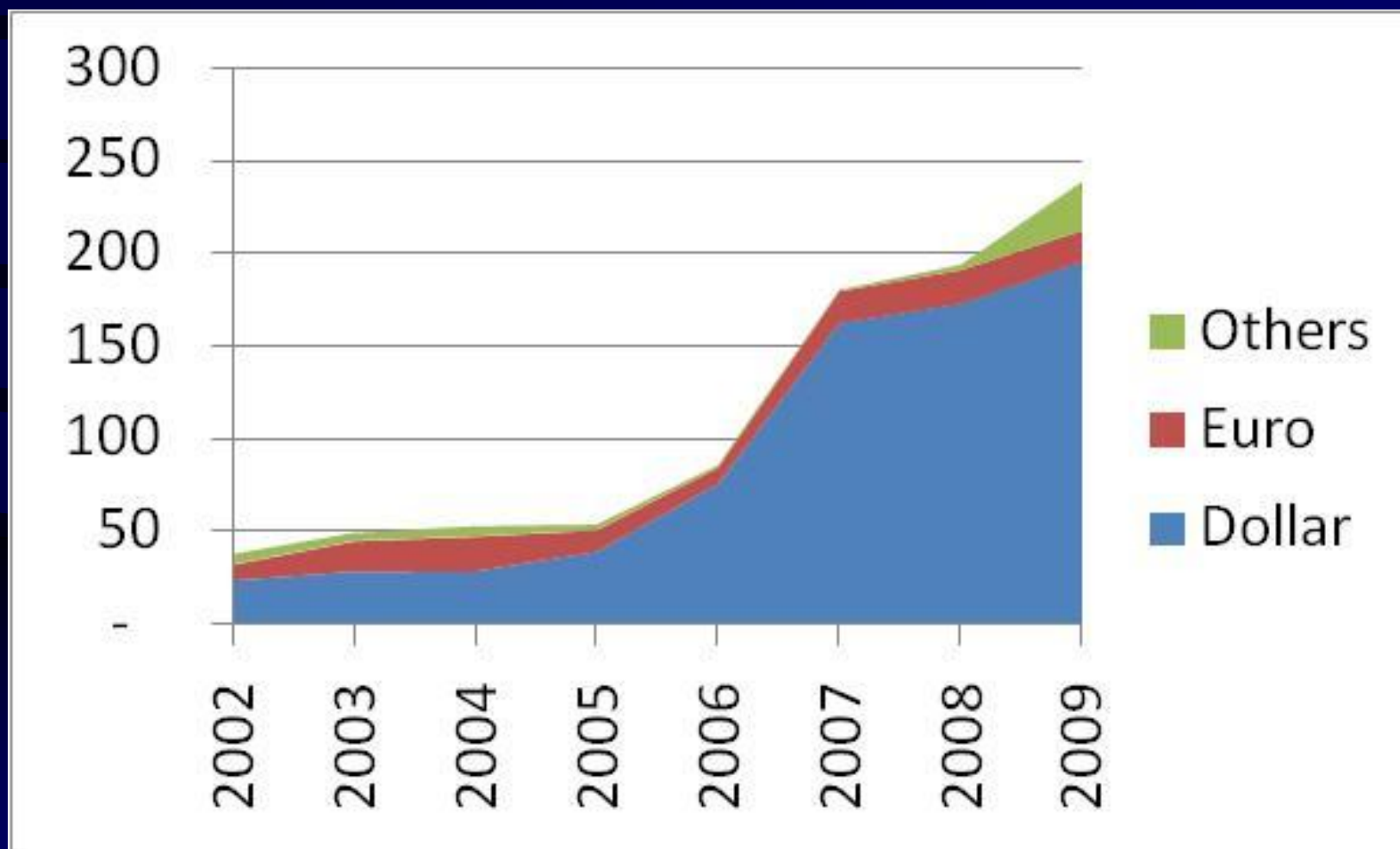
The high cost of the International Reserves: The other face of the acceleration of the internal debt, with highest interest rates



Source: Central Bank. Note: The Open Market Operations were converted into dollar with the constant exchange rate of R\$ 1,80 - Elaboration: Auditoria Cidadã da Dívida – www.divida.auditoriacidada.org.br

Brazilian International Reserves: Predominantly in USA-Dollars

Brazil: Reserves distribution – Billions of US dollars



SOUTH FINANCING THE NORTH

- **Brasil is one of the IMF creditors since 2009**
- **Brazilian Central Bank invests it's large amount of reserves in US bonds – that yields very low interest – financing the US policies, for example, the bailout of the private banks, and the War.**

“The weapons and finance are complementary: United States, and eventually Great Britain, could not impose its financial war with the world valetudinarian scrap paper without the coverage of its plethoric nuclear weapons. Who won the military war imposes its dual economic and financial order.”

Michael Hudson, Author “*Global Fracture: the New International Economic Order*”

What world do we want?

Financial Power?

Save Banks

or

Save People, save Nature?

**Financial System must serve people,
not dominate.**

Get to the True = DEBT AUDITING

ECUADOR: LESSON OF SOVEREIGNTY

- OFFICIAL AND PUBLIC AUDITING OF THE PUBLIC DEBT
- Interruption of the payment to creditors (Global 2012 and 2030 Bonds) since November/2008
- Sovereignty proposal to repurchase the rest of the debt paying only 30% of the nominal value. 95% of the creditors accepted.

The Economist (23/04/2009): “Mr. Correa seems to be incorruptible (...) public spend increase 71% on 2008, due to investments in schools and hospitals”

“Ecuador suggests sovereign external debt audits worldwide” (Ecuador Inmediato, 23/04/2009)

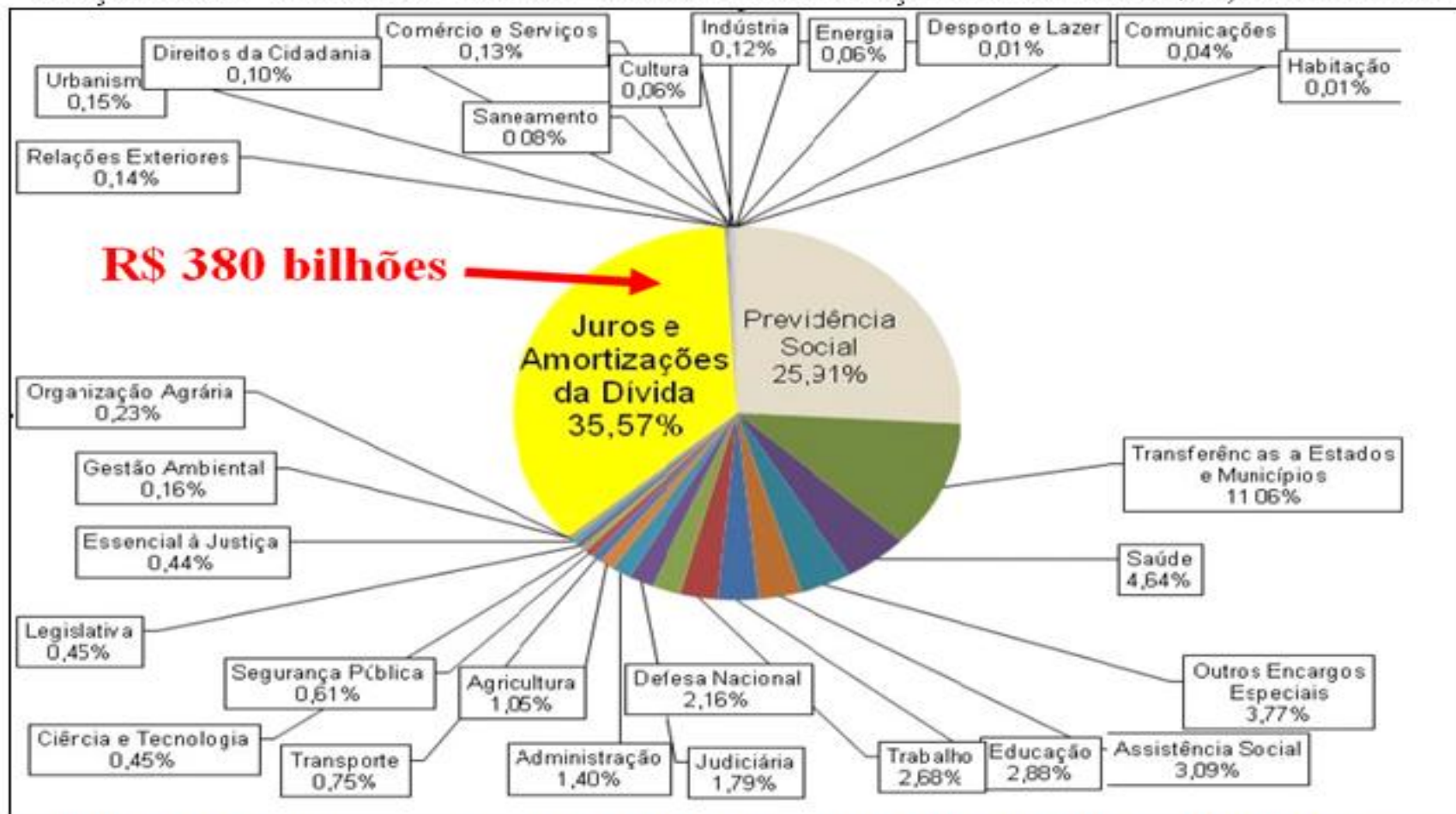
ECUADOR Audit & BRASIL Investigation

Access to documents revealed:

- **Common facts to other countries, which must also be documented by full audits**
- **Remarkable similarities**
- **Disrespect to Human Rights due to the constant reduction of resources that should be allocated to the basic needs: Health, Education, Assistance, Work, Food, Home**
- **Chance of articulation of the countries submitted to the same process of borrowing**

BRAZIL: Public debt is the main part of the federal budget

Orçamento Geral da União – 2009 – Por função – Total: R\$ 1,068 trilhão



Fonte: SIAFI. Elaboração: Auditoria Cidadã da Dívida. Não inclui o “refinanciamento”

Fonte: SIAFI. Elaboração: Auditoria Cidadã da Dívida

Final Report – CPI of the Debt – Brazil

Approved by 8 votes against 5

- Recognizes that the very high interest rates (non-civilized) was the most decisive fact for the growth of the debt;**
- Recognizes that domestic debt increased in the 90's due to high interest rates and the free flow of capital;**
- Recognizes that domestic debt increased in recent years to finance the purchase of dollars – with internal debt bonds - to the international reserves, with big cost to public accounts.**
- Recognizes that the Senate resigned to its attribution, approving bonds emissions without define its characteristics.**
- Recognized lack of: information, documents and transparency of debt**
- Despite the serious diagnosis, the final report presented weak recommendations and didn't properly face the identified problems**

Alternative Report (“Voto em Separado”) - CPI

Supported also by 8 deputies

Sent to the Prosecute (to the elaboration of legal actions)

Denounces serious indications of debt illegalities:

- Interests over interests (anatocism), considered illegal by Supreme Court;**
- Lack of contract documents; absence of conciliation of values submitted to renegotiation; neglect to repurchase bonds at low prices at secondary market; illegitimate and illegal clauses; doubtful debt stock;**
- Floating Interests: illegal as Art 62 of Vienna Convention;**
- Illegality of procedures to guarantee total free capital flows;**
- Big destination of the budget to pay the debt - Violation of the social and human rights;**
- The Central Bank realizes meetings with the creditors to estimate the inflation expectations, that define the interests rates;**

RECOMENDATION: DEBT AUDITING

Challenges and Proposals

- Disseminate the experiences of Debt Audit in Ecuador and Brazilian Debt Parliamentary Investigation Commission and encourage the implementation of new audits;
- Emphasize the importance of the audit of debt in the global financial crisis, the increase of illegitimate debt due to governments borrowing to save private banks, making neoliberal reforms;
- Identify in each country the process of exchanging external debt for domestic debt
- Deepening legal studies on responsibility of creditors, asymmetry between the parties, violation of international principles (fairness, rebus sic stantibus), violation of human rights, the right to development and financial sovereignty;
- Discussion on the need for debt auditing in the forum of experts set up by UNCTAD

PEOPLES OF EUROPE X IMF & BANKS



France



Ireland



Greece



Portugal



UK



Spain

REDUCTION OF WAGES, PENSIONS,
SOCIAL EXPENSES

WHAT FOR?

IMF

TO PAY DEBT MADE TO SAVE THE
PRIVATE BANKS

THIS MUST BE AUDIT!

Thank you,

Maria Lucia Fattorelli

www.divida-auditoriacidada.org.br