



IMF and Public Debt Audit

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1. IMF ADJUSTMENT PLAN

2. CONSEQUENCES

3. ALTERNATIVES:

- Tributary Justice
- Capital Control
- **DEBT AUDIT**

1 - IMF ADJUSTMENT PLAN

Justification for intervention of IMF and its Adjustment Plans

- **CONTROL PUBLIC DEFICIT**
- **CONSOLIDATING FOREIGN CURRENCY RESERVE**
- **PAY PUBLIC DEBT**

Method

CONDITIONS: Adjust economic policies, specially:

- Neoliberal reforms
- Eliminate restrictions on capital flows
- Shift tax burden directing it to lower incomes
- **PRIVATIZATIONS**, including banks

Is this true?

- **CONTROL PUBLIC DEFICIT**

- What generates the deficit?
- What is the role of “public” debt on national budget?

- **CONSOLIDATING FOREIGN CURRENCY RESERVE**

- What is the origin of the lack of foreign currency?

- **PAY PUBLIC DEBT**

- What is the origin of this debt?
- What part is “odious debt” and “illegitimate” ?
- Did this debt benefit the nation or the people in Egypt?

THE DEBT AUDIT CAN ANSWER

DEBT SYSTEM

***modus operandi:* Debt becomes an instrument of taking over resources, not financing**

IMF intervention: 1982 in Latin America, 2008 in Europe

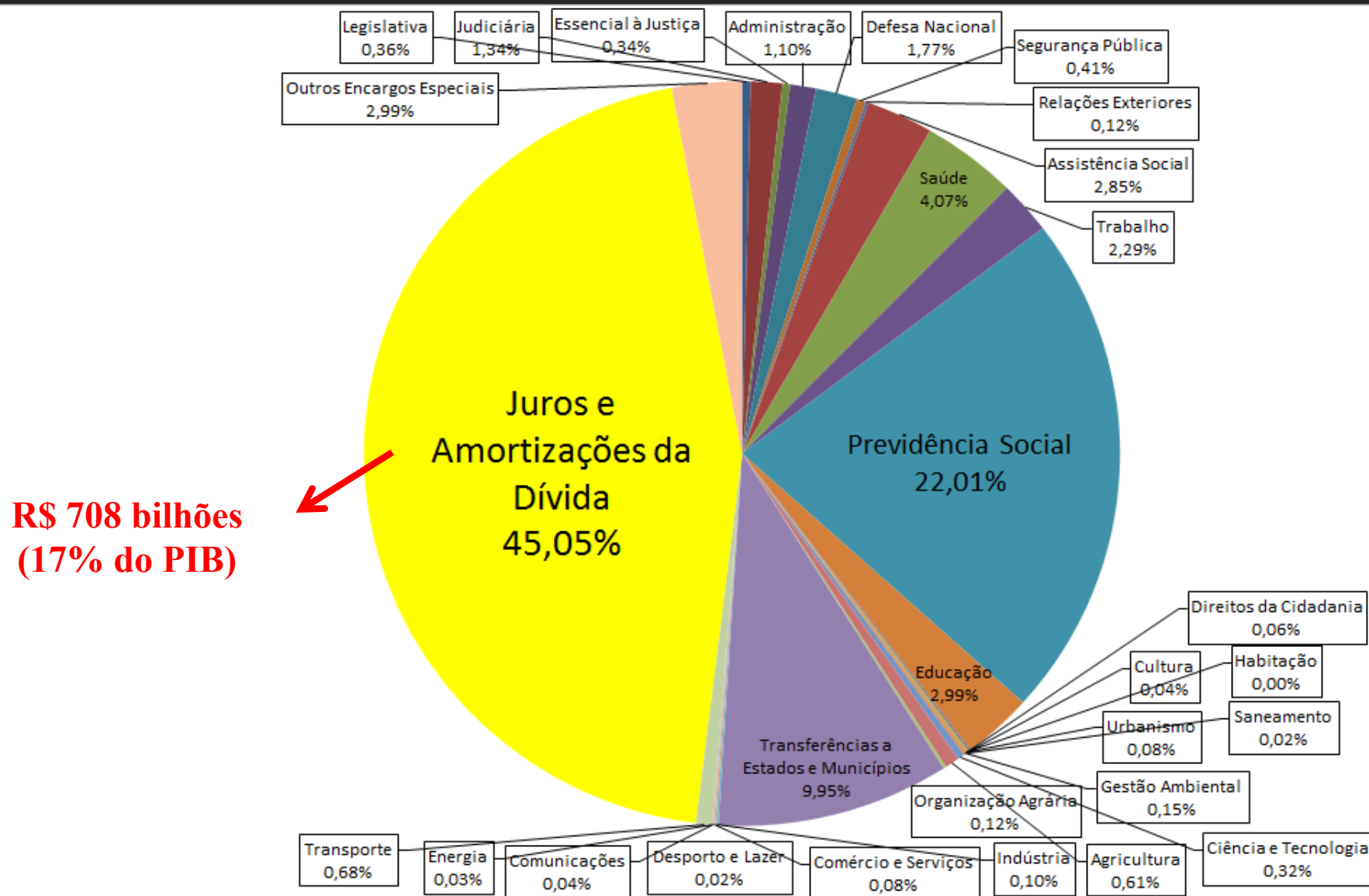
ADJUSTMENT PLAN

- Intervention in national domestic economic matters
- Privatization
- Deep social costs and damages
- Lack of transparency

After IMF intervention PUBLIC DEBT RISED EXTREMELY

2 – CONSEQUENCES *in Brazil*

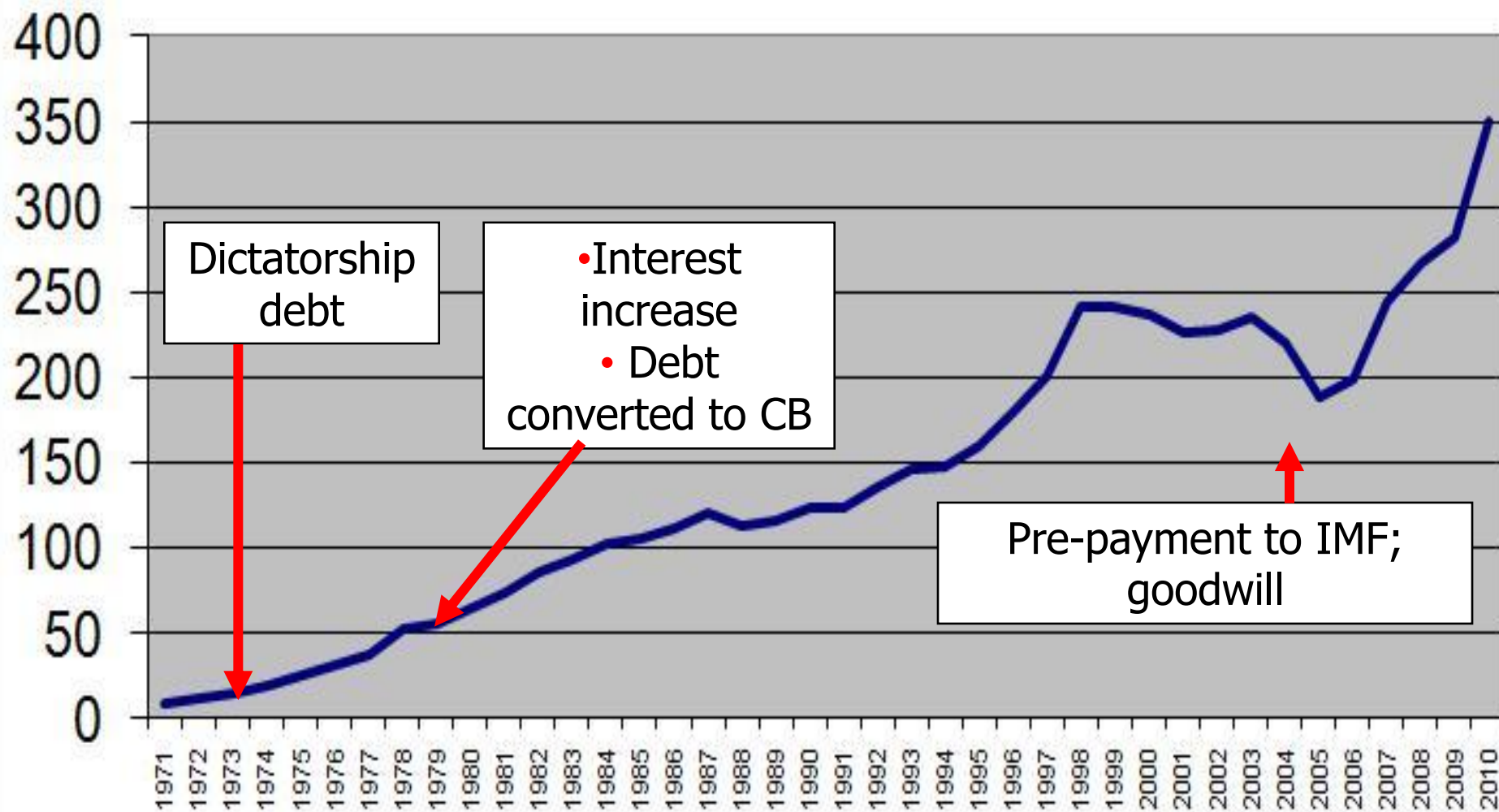
Orçamento Geral da União – Executado em 2011 – Total = R\$ 1,571 trilhão



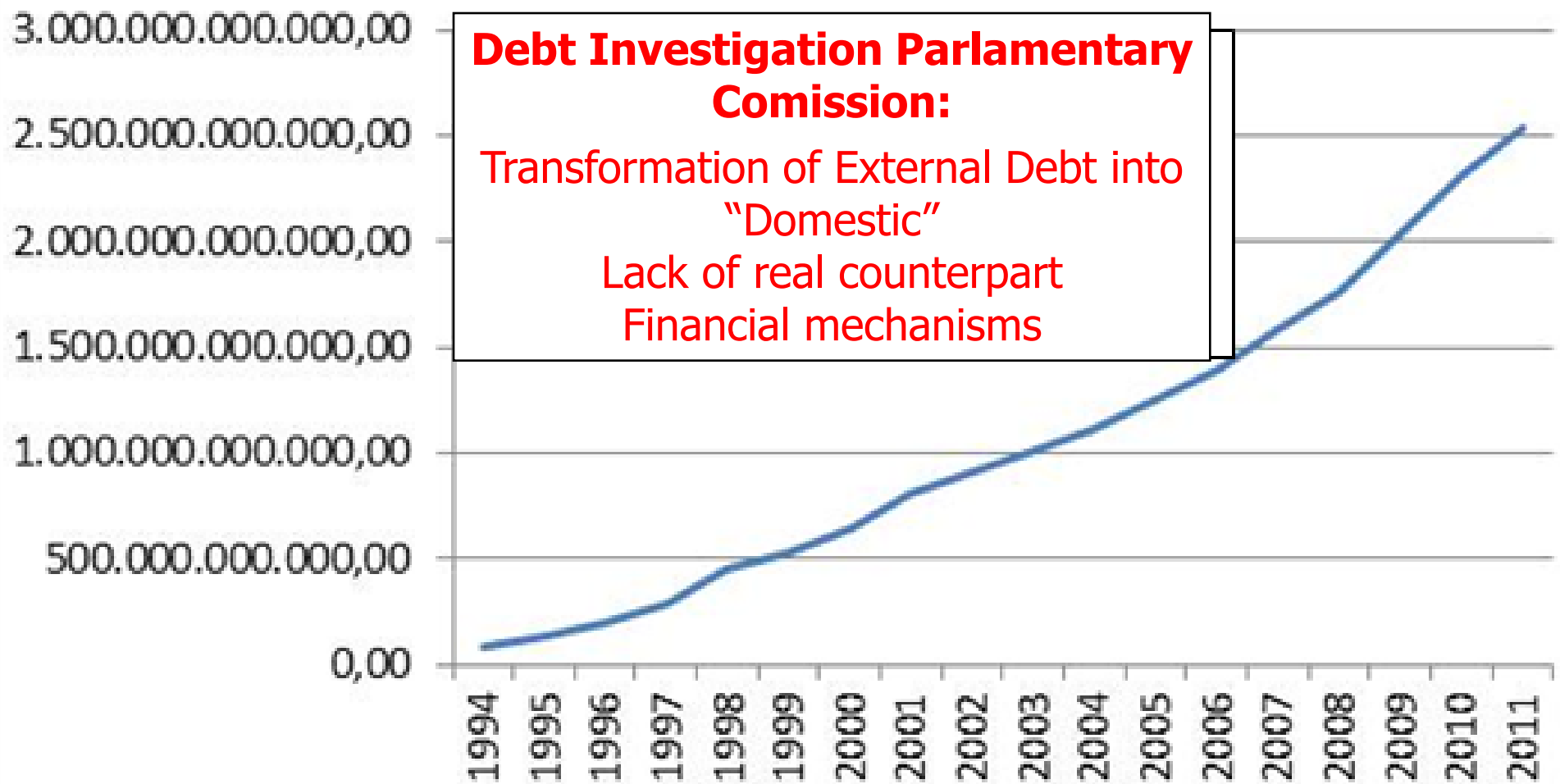
Nota: Inclui o "refinanciamento" ou "rolagem", pois a CPI da Dívida constatou que boa parte dos juros são contabilizados como tal.

Fonte: SIAFI / Elaboração: Auditoria Cidadã da Dívida, **OBEDECENDO-SE O PRINCÍPIO DA UNICIDADE ORÇAMENTÁRIA**

Dívida Externa (US\$ bilhões)



Dívida Interna (R\$)





Brazilian Paradox

- **6th Major World Economy**
- **3rd Worst Wealth Distribution**
- **84th on the ranking of human rights - IDH**

The strategy of keeping power under capitalism

Increasing profits of financial and big corporate sectors

Financing of electoral campaigns and corruption

Extreme power of the press linked to the large capital

Illusory distribution of wealth

- Small advantages for poor people: “Family Basket”
- Minor adjusts for workers
- Access to cheap products: sensation of a better life
- Access to credit/financing

Model of accumulation

3 - ALTERNATIVES

- **Social and Tax Justice**
- **Capital Control**
- **DEBT AUDIT**

- **Social and Tax Justice**

- Tax the wealth
- Review Subsidies given to the rich
- Balance tax revenue by progressive taxation of income and property
- Tax stock market transactions

- **Capital Control**

- Protect from speculation, capital flight and money laundry
- Example: Malasia

- **DEBT AUDIT**

DEBT AUDIT

Access to documents will answer

Where the debt comes from?

How much the country actually received?

How much have been paid?

How much do we really owe?

Who contracted these debts?

Where were the resources applied?

Who had benefited and profited from the debt?

How responsible are the creditors and international organizations in this process?

DEBT AUDIT

Technical instrument, but not only accounting

- Explains the mechanisms that generate “public” debt
- Instrument that clarifies the reasons of immensurable growth of the public debt
- Instrument that shows the usurpation of “public indebtedness” by international financial system
- Unveils the juridical and political (dictatorship, tecnocracy
- Instrumentalization of the nation in benefit of private banks
- Shows the speculation that benefits banks

EXPERIENCES in DEBT AUDIT

ECUADOR

- OFFICIAL DEBT AUDIT

BRAZIL

- CITIZEN DEBT AUDIT
- PARLAMENTARIAN INVESTIGATION

IRELAND

- ACADEMIC DEBT AUDIT

Other initiatives

ECUADOR: lesson of sovereignty
Official Commission for Debt Audit
Participation of citizens
Created by Decree in 2007

- **In 2009:** Sovereign proposal of recognition of a maximum of 30% of the external debt represented by 2012 and 2030 bonds
- 95% of the bond holders accepted Ecuadorian proposal, which means that 70% of the debt to private international banks was cancelled
- US\$ 7,7 billion saved for the next 20 years
- Increase of social expenses, especially Health Care and Education

CITIZEN DEBT AUDIT - BRAZIL

- Historical approach of the debt: studies, documents, reports of Parliament
- Analysis of national budget and denounce of the privileges of the debt
- Compilation of legal arguments
- Major political results

Audit in Ecuador - CAIC

Parliamentary commission of inquiry in Brazil CPI

- National demonstrations involving workers' associations, students, and other popular organizations.
- International connection – countries and organizations (Latindadd, CADTM, JS, UNCTAD)
- Popular reports, participation in national and international events, books, movies, studies, website: **www.auditoriacidada.org.br**

CPI of Debt: Large social participation



Parliamentary Comission of the Debt - Brasil

CPI – HOUSE OF REPRESENTATIVES

Created on December 2008 and settled on August 2009, after an effort of Deputy Ivan Valente (PSOL/SP)

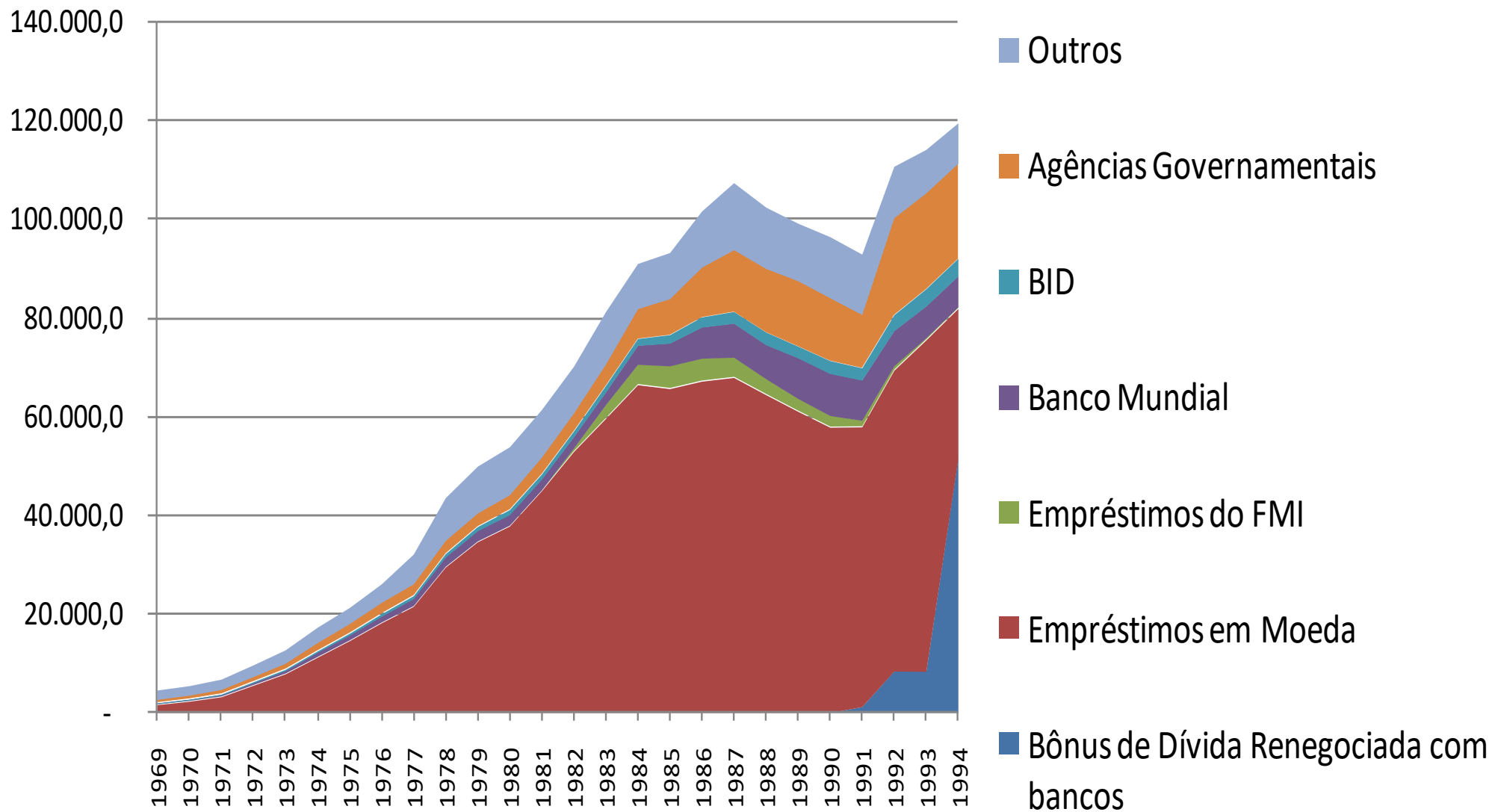
Finished on May 11th 2010

Identification of serious evidences of illegalities in public debt

At the present: under investigation by Federal Prosecutors' Office

BRAZIL: Relevance of External Debt to Private International Banks

EXTERNAL DEBT: Registered by Central Bank US\$ million – 1969 to 1994



CONCEPTS

Public Debt

Domestic Debt

New “FACE” of external debt

External debt

MULTILATERAL

BILATERAL

COMMERCIAL (Debt with
International Private Banks)

PRIVATE*

SOVEREIGN DEBT

Thank you

Maria Lucia Fattorelli

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ECUADOR

DEBT AUDIT



ECUADOR – Audit Commission – CAIC – Decree 472/2007

Integral audit with social participation

Art 4º - The CAIC is authorized to audit and transparent all indebtedness processes of state institutions.

Art 9º - All public sector entities are obliged to provide information requested by the Commission in the terms and penalties established in the Law on Fiscal Transparency.

**LEGAL BASIS AND POLITICAL BACK UP ARE INDISPENSABLE TO CARRY OUT
THE AUDIT**



Definition of the integral audit – Decree 472

Art. 2 - Integral audit is defined as:

“the supervising action managed to examine and evaluate the process of contraction and/or renegotiation of public indebtedness, the origins and the destination of the resources, and the execution of projects that are financed with domestic or external debt, in order to determine its legitimacy, legality, transparency, quality, efficacy and efficiency, considering legal and financial aspects, and the impact on economy, society, gender, regions, ecology, nationality and peoples”



Final report of CAIC presented to President Rafael Correa on September 2008

Some general conclusions:

The process of indebtedness of Ecuador, during the period between 1976 and 2006, from the perspective of a structural continuity, has been developed for the benefit of the financial sector and transnational corporations, clearly affecting the nation's interests

Commercial debt:

- Net transfer of resources in the amount of US\$ 7.13 billion in 30 years.
- Increase of the debt from US\$ 115.7 million to US\$ 4,200 billion (1976-2006)
- Debt has not been a source of financing for the state. Actually, it represented a continuous loss of resources.



ECUADOR: Access to information that unveiled:

- Facts that also occurred to other countries, which should be backed up by integral audits
- Impressive similarities
- Disrespect to human rights due to the continuous subtraction of resources that should be destined to answer to the basic needs: health, education, assistance
- Possibility of articulation between countries that were submitted to the same process of indebtedness



CO-RESPONSABILITY OF IMF

- ✓ Obtainment of documents (contracts, letters etc.) that show that IMF actively participated in all of the refinancing agreements that Ecuador contracted to international private banks, unacceptable intromission in sovereign decisions of economic and social policies.
- ✓ Refinancing packages conditioned to the signature of agreements with IMF, which imposed antisocial measures.
- ✓ Violation of sovereignty, statutes, and basic principles of International Law (sovereign equality between states, self-determination, right to development and respect to human rights).

CONCLUSION: the crisis exposed what we call a

“Debt system”

System that uses the instrument of public indebtedness – that should raise resources – to embezzle public resources.

To operate, this system uses a structure of privileges in legal, political, financial and economical orders, with the aim of guarantee absolute priority to financial payments, which costs the violation of human rights of the whole nation.

This “Debt System” should be unmasked to resume the sovereign rights, using the antidote of the PUBLIC DEBT AUDIT

DEMOCRATIZATION OF KNOWLEDGE AND MOBILIZATION

Strategies

DEBT AUDIT with CITIZEN PARTICIPATION Regional centers to dismantle the “Debt System” and democratize knowledge of financial reality

CONSCIENT SOCIAL MOBILIZATION

CONCRETE ACTIONS

- Centers of Citizen Audit
- Follow investigations
- Review monetary and fiscal policy to guarantee income distribution and social justice
- Respect human rights
- TRANSPARENCY and access to TRUTH

***Quando se trava uma luta, não se
deve ter a preocupação com o
resultado, mas se é ou não algo pelo
qual vale a pena lutar.***

***Sou feliz porque acho que cumpri o
meu dever***

Barbosa Lima Sobrinho

METHODOLOGY

FOR A

DEBT AUDIT

STEPS TO AUDIT: COLLECT DOCUMENTS

- **Right to access documents:** if the debt is “public”, the documents that support the debt are also public
- **Contracts, agreements, statistics data, accountability records**
- **All the communications between the country with IFI**

Experiences:

- In Ecuadorian Debt Audit, were found documents – telex, letters and other communications - that prove the conditions of pressure and urgency, besides, the impositions of IMF, under which the refinancing packages of refinancing the debt with private banks were approved in 1983, right after the financial crisis of 1982.

Juridical aspects that might be considered on a Debt Audit

- **Co-responsability of the creditors and international financial institutions**
- **Asymmetry between parts**
- **Violation of general principles of Right:**
 - **Reasonability**
 - ***Rebus sic stantibus***, which determines that an obligation may be reviewed if the initial circumstances are substantially changed, for example, the unilateral elevation of the interest rates (art. 62 of Wien Covenant)
- **Right to Development**
- **Right to Sovereignty**
- **Violation of Human Rights**

Juridical Aspects considered by Ecuadorian Debt Audit

- **Unjust Enrichment**
- **Anatocism**
- **Vices of Origin**
- **Good Faith** (UN Convention)
- **Equity** (The law can not protect the abuse of Right)
- **Solidarity and Cooperation** (UN Convention)
- **Public Order**

Fundamentals of the Debt Audit in Ecuador

Audit of processes and operational cycles of the transactions that originated the debt, in order to find out if they:

Were reasonably registered in Accountancy, properly justified and transparent

A large, light green downward-pointing arrow indicating the flow from the first criterion to the second.

Were legal, legitimate and had no vices

A large, light green downward-pointing arrow indicating the flow from the second criterion to the third.

Caused any moral or economic prejudices

METODOLOGY for a DEBT AUDIT

PRELIMINARY REVIEW



EXECUTION



FINAL REPORT

REVISION and PRELIMINARY ANALYSIS

CONFORMATION OF PRELIMINARY WORK GROUP



COLECT INFORMATION:

Documents (Contracts, Agreements, communications);
Statistics; Legislation; Debt Control Institutions



PRELIMINARY ANALYSIS: General revision of documents;
formal authorization; Visit to institutions of Debt control



PRELIMINARY REPORT

EXECUTION OF THE INTEGRAL AUDIT

WORKING PLAN

- Motivation of the Audit
- Scope and depth of the examination
- Type of Audit to be realized
- Conformation of multidisciplinary Working Group
- Time required and work schedule

AUDIT PROGRAMM

- General Objectives
- Specific Objectives
- Procedures and Technics applicable
- Compliance Proofs
- Substantive Proofs

EXPECTED RESULTS

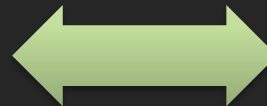
- Detail of the Public Debt
- Mechanisms that generate the Debt
- SOCIAL, ECONOMIC and POLITICAL IMPACTS

ORGANIZATION OF THE WORKING GROUP

**FOR EACH
TYPE OF DEBT**



**DOCUMENTAL
and JURIDICAL
ANALYSIS**



**STATISTICS and
ACCOUNTABILITY
ANALYSIS**

STATISTICS and ACCOUNTABILITY ANALYSIS

- Statistics analysis allow the application of Relevance criteria
- Determination of the components of stock of each type of debt will define the Subcommittee job. Ex: Commercial Banks, Paris Club, IMF etc
 - Conciliation of amounts between datas – accountability, statistics and other extra-accountability books
 - Determination of its reasonability
 - Audit Procedures: Substantive Proofs

EXECUTION – SUBSTANTIVE PROOFS

Useful to determine:

- Actual amounts of indebtedness
- Other costs: commissions (excessive?) and costs
- Interest capitalization and other penalties
- Pre-payment of not expired obligations
- Enforcement of collateral warranties without consent
- Payment of excessive or overestimated honorary to lawyers
- Refinancing by issuing bonds
- Unilateral changes of the contract, as the increment of interest rates
- Effectiveness of receiving the resources
- External influence

DOCUMENTAL and JURIDICAL ANALYSIS

Compliance Proofs

- These are important to determine if:
- The operations were authorized according to law
- The documents were subscribed by competent authorities, within the contracted terms
- The studies and reports that backed them up observed all legal and technical aspects
- The covenant that back them up are clear or include vices, abuses or revokes; legal clauses?
- The operations that generated debt observed the Juridical Order and the General Principles of Right

FINAL REPORT

- FORMALITIES
- Resume of Findings and Results
- Resume of Limitations
- CONCLUSIONS
- RECOMENDATIONS
- Publicity