



Department of Justice, Peace and Human Development
Office of International Justice and Peace

Background on Debt Relief for Poor Countries
February 2008

So it is to be hoped that... the process of debt cancellation and reduction for the poorest countries will be continued and accelerated.

-- Pope Benedict XVI, January 8, 2007

ISSUE

While major progress has been made in reducing poor country debt, a substantial number of the poorest countries continue to shoulder heavy debt burdens that draw precious government resources away from critical investments in health care, education, water and other sectors necessary to improve lives.

BACKGROUND

Many poor countries have seen their debts reduced through the Heavily Indebted Poor Countries (HIPC) initiative that was adopted in 1996 and expanded in 1999 in response to successful advocacy by the global Jubilee 2000 movement, in which the Catholic Church played a major role. In the succeeding years, it became apparent that further efforts were required, and the United States Conference of Catholic Bishops (USCCB) has continued to make important contributions to the debt cancellation effort that offers new hope to some of the world's poorest and most forgotten people.

A major breakthrough occurred in the July 2005 Summit of leaders of the major industrialized countries plus Russia (the G8). They announced a proposal to cancel 100% of the debt owed by qualifying HIPC countries to the International Development Association (IDA) of the World Bank, the African Development Fund (AfDF), and the International Monetary Fund (IMF). The G8 called for the major donor countries to reimburse IDA and AfDF for losses from debt cancellation to assure that these institutions would not offset their losses by reducing new assistance to the beneficiary countries. (The IMF will finance its costs mainly from internal resources.)

The G8 proposal, called the Multilateral Debt Relief Initiative (MDRI), was accepted by all member countries of the World Bank, IMF and AfDF. So far 23 countries have received MDRI debt cancellation that, together with earlier relief under the HIPC program, amounts to over \$70 billion. An additional 18 countries are potentially eligible for MDRI debt cancellation.

The U.S. has already met its initial commitment to finance a share of the cost of the new debt cancellation to the international financial institutions. The President has asked Congress for \$1.235 billion for IDA in FY09, which includes financing for the MDRI. To ensure that the U.S. continues to meet its MDRI financial commitment, it is important that the Congress provide the full \$1.235 billion for IDA in the Foreign Operations bill for FY09.

Another major USCCB debt relief objective was accomplished in 2007 when the Inter-American Development Bank agreed to debt cancellation for the poorest countries in Latin America and the Caribbean: Haiti, Honduras, Nicaragua, El Salvador, Bolivia and Guyana. The latter four countries

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received immediate debt cancellation and Haiti, which had only recently qualified for HIPC debt relief, began receiving substantial debt reduction and is on a path to receive full cancellation, hopefully before the end of 2008.

USCCB has also followed developments with regard to debt relief for Liberia. Liberia has one of the highest debt burdens in the world, but because of the need to rebuild government institutions after the devastation caused by many years of civil strife, it is only now able to meet the conditions for entering the HIPC and MDRI debt relief programs. The initial need was financing for the International Monetary Fund (IMF) to enable it to offset the cost of debt cancellation. USCCB was in touch with the U.S. government and informed the bishops' conferences of Brazil and Argentina, two important IMF shareholders, of the situation. In November, the IMF announced that sufficient funding had been secured to begin the process of debt cancellation. Both Brazil and Argentina made funding commitments. There appear to be good prospects that Liberia will begin to receive major debt relief in March 2008.

Despite much progress in securing debt relief, one major goal of USCCB, greater fairness in country eligibility has not yet been achieved. Some very poor countries with heavy debt burdens have not received debt relief because the formula used to calculate eligibility excluded them. The Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007 (H.R. 2634) would extend debt cancellation to virtually all very poor countries that have, or develop, financial management systems to assure that debt relief savings are used to reduce poverty. A companion bill (S.2166) was introduced in the Senate in October. USCCB staff testified in support of H.R. 2634 before the House Financial Services Committee in November 2007. The Chairman of the Committee indicated at the hearing that he hopes to bring the bill to the House floor for approval in the first half of 2008. A Senate hearing on S. 2166 is expected to take place in March 2008.

ACTION REQUESTED

After many years of sustained advocacy on the part of USCCB and other mostly faith-based organizations around the world, the wealthiest nations, and the international financial institutions over which they hold significant influence, have made major progress in canceling poor country debt. It is important, however, to achieve fully the goal of canceling poor country debt by: 1) continuing to fund existing initiatives so that debt cancellation results in new resources for investments in health, education and other poverty reduction priorities in poor countries, and 2) extending the debt cancellation program to needy poor countries that have been left out of the process.

Through the Catholic Campaign Against Global Poverty USCCB and CRS will work to bring the debt relief effort to a successful conclusion through:

1. Advocating with the Congress to appropriate \$1.235 million for IDA in FY09 to assure full funding for the MDRI debt relief program;
2. Encouraging strong bipartisan support for passage of the Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2007 (H.R. 2634 and S. 2166.)

RESOURCES

See action alerts and letters on the Catholic Campaign Against Global Poverty website of USCCB and CRS at www.usccb.org/globalpoverty. For more information contact: Gerry Flood, 202-541-3167 (phone), 202-541-3339 (fax); gfflood@usccb.org; and Fr. Andrew Small, OMI, 202-541-3153 (phone); asmall@usccb.org

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